

DESWELL INDUSTRIES INC  
Form 20-F  
July 27, 2016

**UNITED STATES**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33900

**DESWELL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

British Virgin Islands (Jurisdiction of incorporation or organization)	Herman Wong, Chief Financial Officer, Telephone: 853-28-322096; fax: 853-28-323265 E-mail: hermanwong@jetcrown.net
10B, Edificio Associacao Industrial De Macau 32 Rua do Comandante Mata e Oliveira, Macao Special Administrative Region, PRC (Address of Principal Executive Offices)	10B, Edificio Associacao Industrial De Macau 32 Rua do Comandante Mata e Oliveira, Macao Special Administrative Region, PRC (Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: Common shares, no par value

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

As of March 31, 2016, there were 16,056,239 common shares of the registrant outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)  
 Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board   
Other

If “Other” has been checked, indicate by check mark which financial statement item the registrant has elected to follow:  
Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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## INTRODUCTION

This Annual Report on Form 20-F contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in the section entitled Risk Factors under Item 3 “Key Information.”

Readers should not place undue reliance on forward-looking statements, which reflect management’s view only as of the date of this Annual Report. The Company undertakes no obligation to revise these forward-looking statements to reflect subsequent events or circumstances. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Except where the context otherwise requires and for purposes of this Report only:

“we,” “us,” “our company,” “our,” the “Company” or “Deswell” refers to Deswell Industries, Inc. and, in the context of describing our operations, also include our operating subsidiaries;

“shares” refer to our common shares, no par value;

“China” or “PRC” refers to the People’s Republic of China, excluding Taiwan, Hong Kong and Macao;

“Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China;

“Macao” refers to the Macao Special Administrative Region of the People’s Republic of China;

“BVI” refers to the British Virgin Islands;

all references to:

o renminbi,” “RMB” or yuan are to the legal currency of China, of which the yuan is the base unit;

o “HK dollars” or “HK\$” are to the legal currency of Hong Kong;

o “MOP\$” are to the legal currency of Macao;

o “U.S. dollars,” “dollars,” “\$” or “U.S.\$” are to the legal currency of the United States; and

o “fiscal year,” e.g., “fiscal 2016,” are to our year ended March 31 of the year(s) indicated.

## FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America and publishes such statements in United States dollars. See “Report of Independent Registered Public Accounting Firm” included elsewhere herein. The Company publishes its financial statements in United States dollars. The functional currency of the Company and its subsidiaries is the U.S. dollar.

## PART I

### Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### Item 3. KEY INFORMATION

The selected financial data set forth below should be read in conjunction with our Consolidated Financial Statements and Notes thereto included at page 57 of this Annual Report. The selected Operations Data for each of



the three fiscal years in the period ended March 31, 2016, and the Balance Sheet data as of March 31, 2015 and 2016 are derived from our audited Consolidated Financial Statements included in this Annual Report. The selected Operations Data for the years ended March 31, 2012, 2013, and 2014, and the Balance Sheet data as of March 31, 2012, 2013, and 2014 are derived from our audited Consolidated Financial Statements, which are not included in this Annual Report.

Selected Financial Data <sup>(1)</sup>

Consolidated Statement of Operations Data:	<b>(in thousands except per share and statistical data)</b>				
	<b>Year ended March 31,</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net sales	\$ 63,687	\$ 53,382	\$ 40,932	\$ 38,076	\$ 44,568
Cost of sales	53,435	46,171	37,295	33,852	39,775
Gross profit	10,252	7,211	3,637	4,224	4,793
Selling, general and administrative expenses	12,057	10,714	10,257	9,123	9,119
Other income (expenses), net	592	233	(214)	93	(1,021)
Operating loss	(1,213)	(3,270)	(6,834)	(4,806)	(5,347)
Non-operating income, net	1,190	2,056	379	2,553	571
Loss before income taxes	(23)	(1,214)	(6,455)	(2,253)	(4,776)
Income taxes	482	328	624	207	158
Loss from continuing operations, after income taxes	(505)	(1,542)	(7,079)	(2,460)	(4,934)
Loss from discontinued operations, net of tax	(956)	(449)	(411)	(348)	-
Net loss attributable to Deswell Industries, Inc.	(1,461)	(1,991)	(7,490)	(2,808)	(4,934)
Other comprehensive income (loss):					
Unrealized gain (loss) on available-for-sale securities <sup>(2)</sup>	(746)	718	57	33	(73)
Total comprehensive loss attributable to Deswell Industries, Inc.	\$ (2,207)	\$ (1,273)	\$ (7,433)	\$ (2,775)	\$ (5,007)
Net loss per share attributable to Deswell Industries, Inc. <sup>(2)</sup> :					
Basic and Diluted:					
Loss from continuing operations per share <sup>(3)</sup>	\$ (0.03)	\$ (0.09)	\$ (0.43)	\$ (0.15)	\$ (0.31)
Loss from discontinued operations per share <sup>(3)</sup>	\$ (0.06)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ -
	\$ (0.09)	\$ (0.12)	\$ (0.46)	\$ (0.17)	\$ (0.31)
Weighted average common shares outstanding <sup>(3)</sup> (shares in thousands)	16,197	16,467	16,186	16,056	16,056

## Statistical Data:

Gross margin from continuing operations	16.1%	13.5%	8.9%	11.1%	10.8%
Operating margin from continuing operations	-1.9%	-6.1%	-16.7%	-12.6%	-12.0%
Dividends per share	\$ 0.12	\$ 0.30	\$ 0.22	\$ 0.19	\$ 0.14

## Balance Sheet Data:

	2012	2013	2014	2015	2016
Working capital	\$ 60,933	\$ 58,298	\$ 50,868	\$ 45,864	\$ 39,890
Total assets	121,959	112,565	100,636	96,439	87,571
Long-term debt, less current portion	-	-	-	-	-
Total debt	-	-	-	-	-
Shareholders' equity	107,689	101,576	89,610	84,063	76,808

(1) Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars. See "Financial Statements and Currency Presentation."

(2) See Note 4 of Notes to Consolidated Financial Statements included later in this Report regarding unrealized gain (loss) on available-for-sale securities during the years ended March 31, 2015 and 2016.

(3) Basic loss per share excludes dilution from potential common shares and is computed by dividing loss attributable to Deswell shareholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflect the potential dilution from potential common shares.

## Risk Factors

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in this document and other documents filed with the Securities and Exchange Commission, in press releases, in reports to shareholders, on our website, and other documents. The Private Securities Litigation Reform Act of 1995 contains a safe harbor for forward-looking statements on which we rely in making such disclosures. In connection with this "safe harbor," we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Any such statement is qualified by reference to the following cautionary statements:

We are, and have been, dependent on a few major customers, the loss of, or substantial reduction in orders from, which would substantially harm our business and operating results.

Historically, we have depended, currently depend, and expect to continue to depend, on a small number of customers for a significant percentage of our net sales. During the year ended March 31, 2016, we had three major customers, each accounting for more than 10% of our net sales and together for 36.7% of our net sales. If our major customers experience a decline in the demand for their products as a result of the prevailing economic environment or other factors, the products or services that we provide to them could be reduced or even terminated. The loss of any of our major customers or a substantial reduction in orders from any of them would adversely impact our sales and operating results unless and until we were able to increase sales from other existing customers or add sales from new customers.

Our sales are based on purchase orders and we have no long-term contracts with any of our customers and the percentage of sales to any of our customers has fluctuated in the past and may fluctuate in future. We cannot assure you that present or future customers will not cease using us as the source of the injection-molded plastic parts and



components we manufacture, for electronic manufacturing services of electrical products and subassemblies or significantly change, reduce or delay th