



Contact:

John G. Nesbett
Institutional Marketing Services (IMS)
203.972.9200
jnesbett@institutionalms.com

DESWELL INDUSTRIES, INC. ANNOUNCES THIRD QUARTER RESULTS

- Company also Announces Third Quarter Dividend of \$0.17 Per Share-

MACAO (February 27, 2008) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter and nine months ended December 31, 2007.

Deswell reported net sales for the third quarter ended December 31, 2007 of \$35.4 million, compared to \$39.0 million for the same quarter of 2006, a decrease of 9.2%. Operating income totaled \$3.0 million, compared to \$5.2 million for the same quarter of 2006, a decrease of 41.5%. Net income for the quarter decreased 38.1% to \$3.0 million compared to \$4.8 million for the year-ago quarter. Basic and diluted net income per share for the quarter decreased to \$0.19 and \$0.19, respectively (based on 15,791,000 and 15,791,000 weighted average shares outstanding, respectively), compared to \$0.32 and \$0.32, respectively (based on 14,948,000 and 15,066,000 weighted average shares outstanding, respectively), for the quarter ended December 31, 2006.

Total gross margin was 22.4% in the quarter ended December 31, 2007, same as the year-ago quarter. Gross profit in the plastic segment decreased to 29.3% of net sales for the quarter ended December 31, 2007 compared to 29.9% of net sales for the year-ago quarter. The slight decrease in gross margin was mainly attributed to the combined effect of labor cost and overhead cost increases due to Renminbi appreciation offset by the voluntary discontinuation of relatively low margin productions and enhanced controls on manufacturing costs compared with the quarter last year. The labor rate increased 12.9% as compared with prior year's quarter.

Gross profit in the electronic and metallic segment increased to 17.7% of net sales for the quarter ended December 31, 2007 compared to 16.9% of net sales for the year-ago quarter. The improved margin was attributable to a combined effect of the change in customer and product mix, price increases on some production and enhanced controls on manufacturing costs to minimize the impact of labor cost and overhead cost increase due to Renminbi appreciation. Moreover, the value added tax was lower as a result of the change in product mix during the quarter. There was an increase in the labor rate of 22.6% as compared with prior year's quarter.

Net sales for the nine months ended December 31, 2007 were \$112.3 million, an increase of 5.5%, compared to sales of \$106.4 million for the corresponding period in 2006. Operating income decreased 38.4% to \$8.0 million, compared to \$13.0 million in the nine months of fiscal 2007, and net income decreased 33.6% to \$7.8 million, compared to \$11.8 million in the nine months of fiscal 2007. Basic and diluted net income per share for the nine months decreased to \$0.51 and \$0.51, respectively (based on 15,244,000 and 15,287,000 weighted average shares outstanding, respectively), compared to \$0.79 and \$0.79, respectively (based on 14,936,000 and 14,944,000 weighted average shares outstanding, respectively), for the nine months ended December 31, 2006.

The Company's balance sheet remains strong, with cash and cash equivalents on December 31, 2007 totaling \$20.3 million, compared to \$24.5 million on March 31, 2007. Working capital totaled \$58.1 million as of December 31, 2007, versus \$58.7 million as of March 31, 2007. The Company has no long-term or short-term borrowings.

Mr. Franki Tse, chief executive officer, commented, "During the quarter, we took various steps to enhance the profitability of Deswell over time. We initiated price increases in January of this year, and we should see the positive margin impact of that in the fourth quarter of fiscal 08. We are being very selective in the quality of business we bring on and will continue to more proactively phase out unprofitable business. We don't expect cost pressures to abate in the near-term given the official minimum labor wage in our area will increase 13% in April, continual appreciation in the Renminbi, profit tax increases, and a near-term increase in energy costs due to the recent snowstorm in Southern China."

Mr. Tse added, "The increased energy and labor costs has been forcing many small to medium size competitors out of our region. This should improve our new business opportunities. We are confident that we will see revenue growth over the next few quarters given new projects and business opportunities in both plastics and electronics."

Third-Quarter Dividends

The Company also announced that on February 26, 2008 its board of directors declared a dividend of \$0.17 per share for the third quarter. The dividend will be payable on March 18, 2008 to shareholders of record as of February 29, 2008.

About Deswell

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic products 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. The Company’s customers include Digidesign Inc., Vtech Telecommunications Ltd., Epson Precision (H.K.) Ltd., Inter-Tel Incorporated, Line 6 Manufacturing and Peavey Electronics Corporation.

To learn more about Deswell Industries, Inc., please visit the Company’s web site 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 and metallic 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.

- more -

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(U.S. dollars in thousands, except per share data)

	Quarter ended December 31,		Nine months ended December 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Unaudited)		(Unaudited)	
Net sales	\$35,416	\$39,002	\$112,282	\$106,406
Cost of sales	27,493	30,248	90,899	80,341
Gross profit	7,923	8,754	21,383	26,065
Selling, general and administrative expenses	5,209	4,960	14,319	14,518
Other income, net (note 5)	319	1,388	954	1,474
Operating income	3,033	5,182	8,018	13,021
Interest expense	-	-	-	-
Non-operating income, net	118	190	500	434
Income before income taxes	3,151	5,372	8,518	13,455
Income taxes	196	301	469	846
Income before minority interests	2,955	5,071	8,049	12,609
Minority interests	-	299	228	837
Net income	2,955	4,772	7,821	11,772
Other comprehensive income				
Foreign currency translation adjustment	1,171	(40)	1,341	670
Comprehensive income	\$4,126	\$4,732	\$9,162	\$12,442
Net income per share (note 3)				
Basic:				
Net income per share	\$0.19	\$0.32	\$0.51	\$0.79
Weighted average common shares outstanding (in thousands)	15,791	14,948	15,244	14,936
Diluted:				
Net income per share (note 3)	\$0.19	\$0.32	\$0.51	\$0.79
Weighted average common shares outstanding (in thousands)	15,791	15,066	15,287	14,944

- more -

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

	December 31, <u>2007</u> (Unaudited)	March 31, <u>2007</u> (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,339	\$ 24,549
Restricted cash	-	-
Marketable securities	220	107
Accounts receivable, net	25,330	21,063
Inventories	28,654	29,495
Prepaid expenses and other current assets	5,534	4,999
Income taxes receivable	-	<u>130</u>
Total current assets	<u>80,077</u>	<u>80,343</u>
Property, plant and equipment - net	62,833	60,157
Goodwill	<u>391</u>	<u>710</u>
Total assets	<u>\$ 143,301</u>	<u>\$ 141,210</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,012	\$ 15,865
Customer deposits and accrued expenses	6,008	5,035
Income taxes payable	649	450
Deferred income taxes liability	<u>320</u>	<u>321</u>
Total current liabilities	<u>21,989</u>	<u>21,671</u>
Minority interests	<u>-</u>	<u>7,884</u>
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
15,790,810 shares at December 31, 2007 and		
15,038,730 at March 31, 2007	49,923	42,393
Additional paid-in capital	7,404	7,601
Accumulated other comprehensive income	2,447	1,106
Retained earnings	<u>61,538</u>	<u>60,555</u>
Total shareholders' equity	<u>121,312</u>	<u>111,655</u>
Total liabilities and shareholders' equity	<u>\$ 143,301</u>	<u>\$ 141,210</u>

- more -