DESWELL INDUSTRIES

DESWELL INDUSTRIES, INC.

NASDAQ: DSWL
January 2008

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Overview

- **Founded:** 1987
- **Location:** Macau (Corporate)
  Dongguan & Shekou (Operations)
- **Business:** Plastic Injection Molding
  Electronics Assembly and distribution
  Metallic Parts Manufacturing
- **Customers Include:** Toshiba, Nintendo, Digidesign, Inter-Tel, Kyocera Mita,Epson, Peavey, Line 6, Vtech etc.

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Financials At-A-Glance

• **IPO**	1995
• **Market Cap:**	$93.16 million (as of 1/24/08)
• **Share Out:**	15.79 million
• **Float:**	10 million

Year Ended March 2007

• **Revenues:**	$136.7 million
• **Gross Margin:**	22.9 %
• **Net Profit Margin:**	8.9%
• **Dividend:**	$0.68 (per share)
• **Cash:**	$24.5 million
• **Debt:**	0

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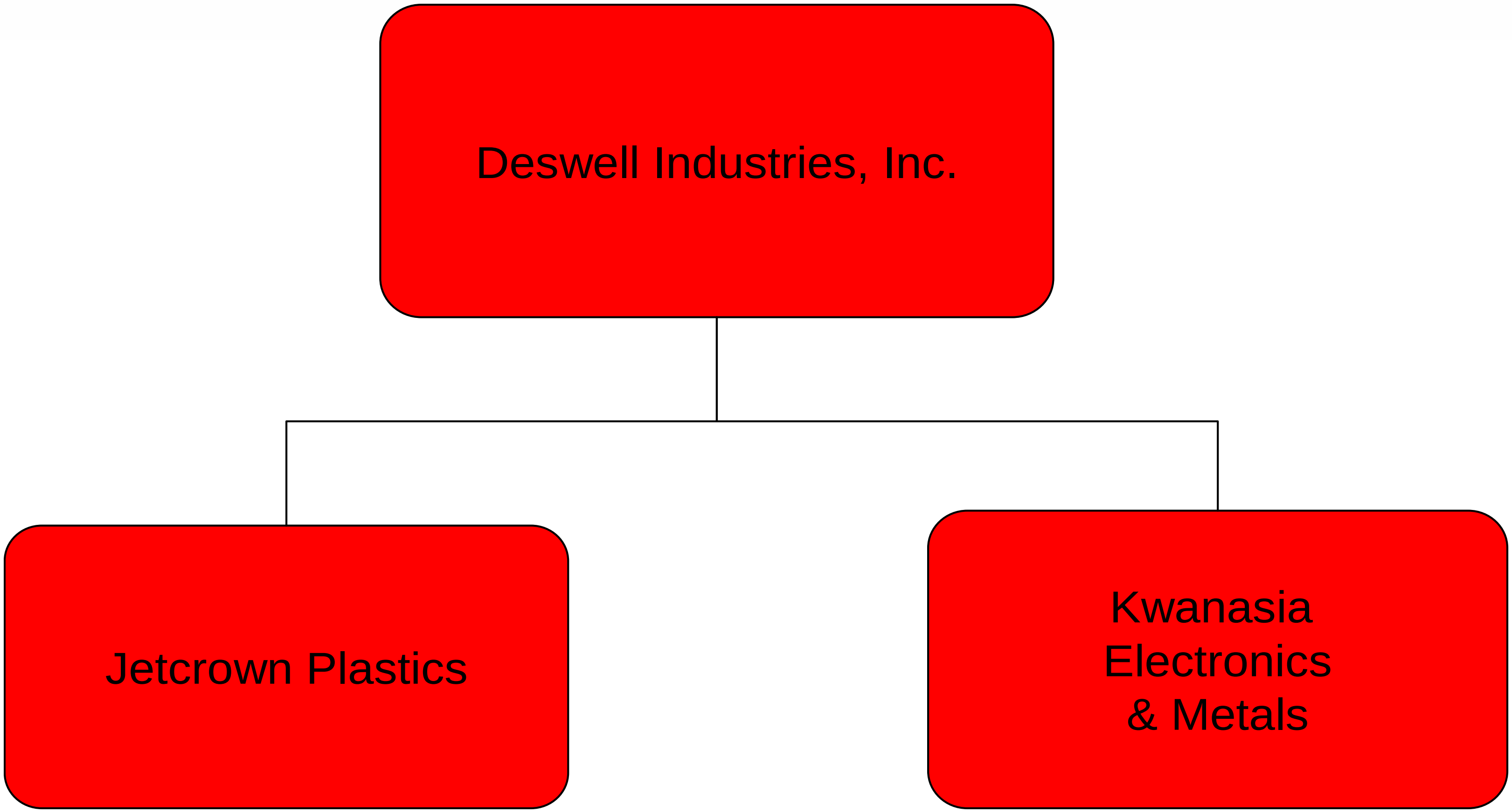

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Plastic Injection Molding Overview

- **Leading injection molding company in China**
  - ➢ Approx. 1,070,000 square feet of manufacturing space in Dongguan
  - ➢ 6,000 employees
- **Focus on high-end injection molding products**
  - ➢ High precision
  - ➢ High cosmetic requirements
  - ➢ Large scale injection

Plastic Injection Molding Expansion

- State of the art, custom built facility in Dongguan
- Over $58 million (from cash flow) invested in new facility over past 4 ½ years
- Recently closed original Shenzen plant
- Currently operating at 70% capacity

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Plastic Injection Molding

- **Mold Design and Production**
  - ➢Utilize most precise and efficient mold making machinery
    - → 32 electrical discharge machines (EDM)
    - → 32 computer numerical control machines (CNC)
    - → 83 numerical control machines (NC)
- **Plastic Injection**
  - ➢State-of-the-art molding capabilities
    - →397 sets of injection molding machines
      - •Significant machinery upgrade in fiscal ’07 (89 new machines)
      - •18 double injection machines

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Plastic Injection Molding Sample Key Customers

EPSON

KYOCERA mita

INTER-TEL®

VTECH

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Electronics Assembly Overview

- **Full-service assembly for primarily high-end products**
- **Expertise in manufacturing professional and high-end consumer audio equipment**
  - Digital mixing boards
  - Instrument amplifiers
  - Synthesizers
- **Competitive advantages also include:**
  - In-house metal manufacturing
  - Injection molding through Jetcrown
- **Contributed 53.4% to total revenues in fiscal 2007**

Electronics Assembly Key Customers

• **Peavey**	(audio)
• **Digidesign**	(audio)
• **Line 6**	(audio)
• **Inter-Tel**	(telecom)

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Electronics Assembly Metals Division

- **Metal parts, primarily casings, for such products as:**
  - Digital mixing boards
  - Guitar amplifiers
  - ATM machines
- **Audio companies prefer metal casing to better shield frequency**

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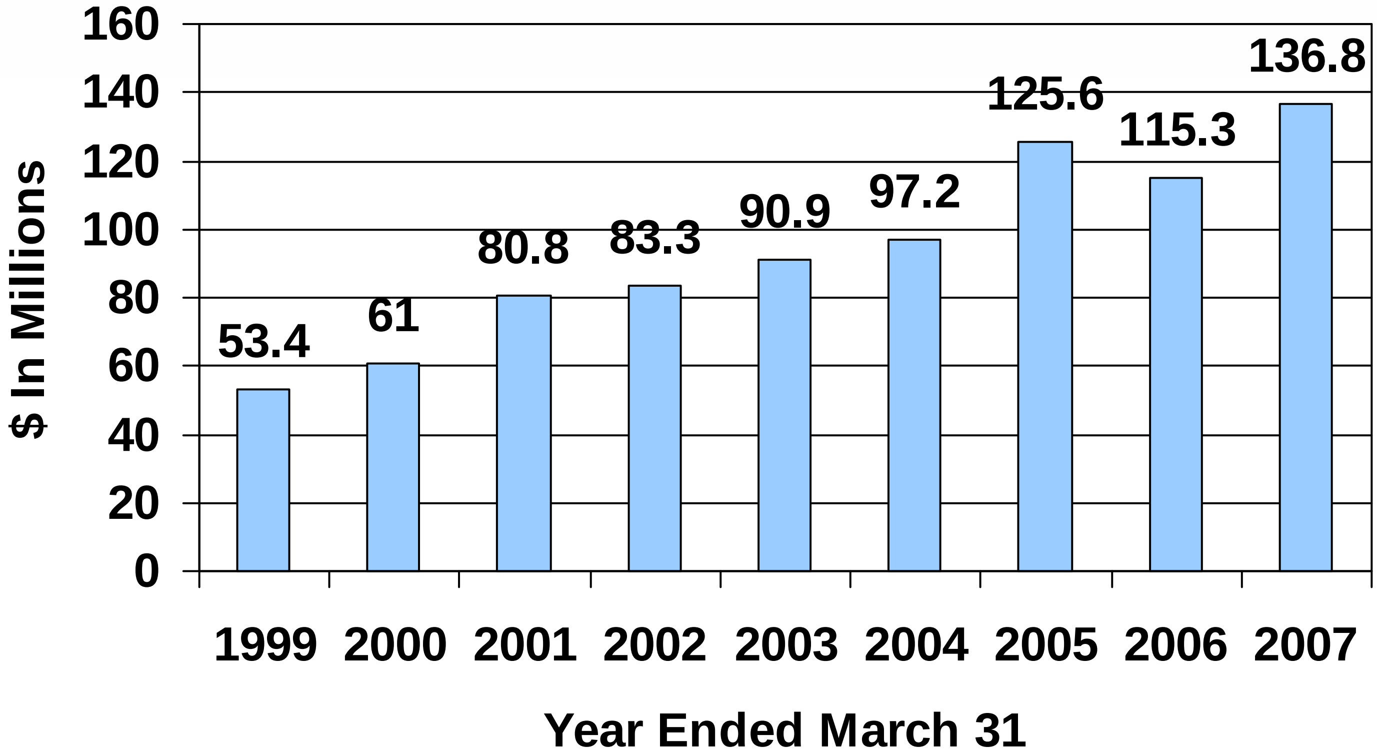
Revenues



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Revenue Growth Drivers

- Continued penetration of audio manufacturing sector
- Significantly expanded sales & marketing
- Expanding high value add manufacturing capabilities (clean rooms, large scale machines, etc.)
- Expand distribution subsidiary
  - Distributing audio equipment in China

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Revenue Growth Drivers (cont.)

- **New R&D Team focused on ODM product development**
  - **High margin**
  - **Enhanced customer relationships**
- **Increasing demand at metals division**
  - **High demand for vending and ATM machines**

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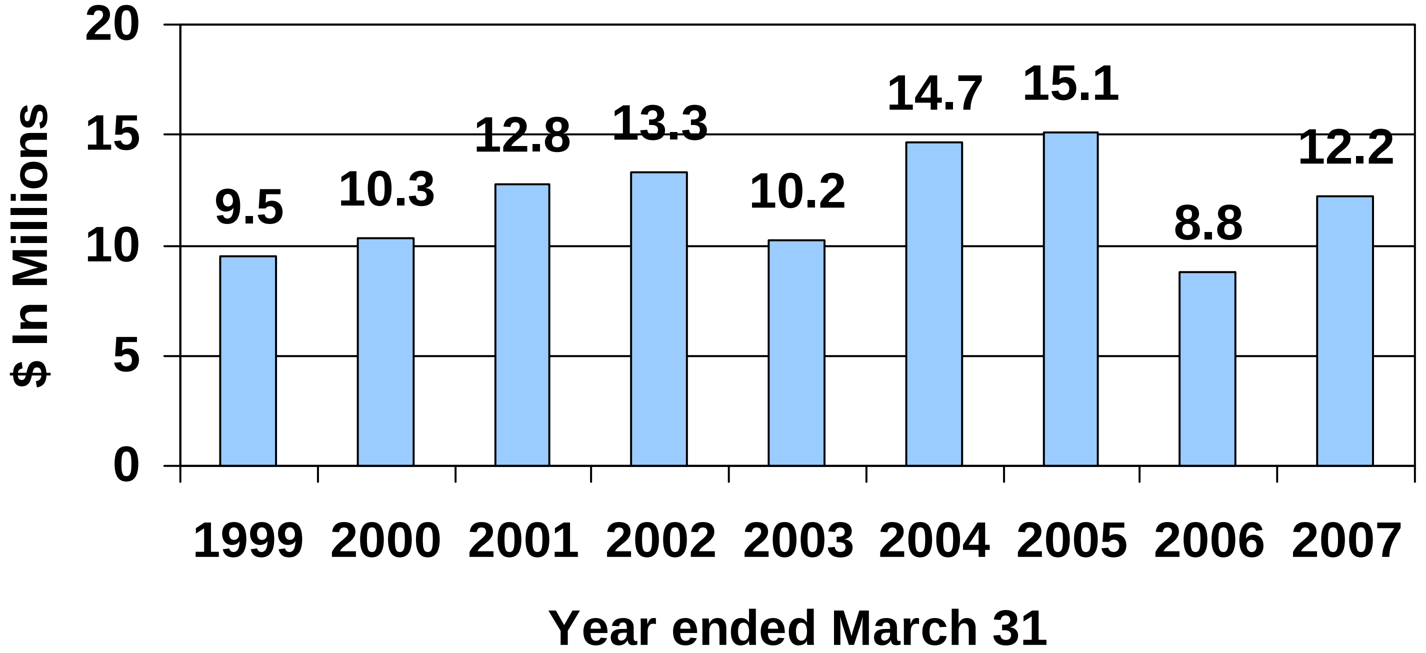
Net Income



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Profitability Drivers

- Focus on higher value-add manufacturing
- Offset increasing RMB and labor rate with aggressive management of expenses
- Drive additional synergies between plastics and electronics division
  - ➢ Added electronics manufacturing at plastics factory to leverage available space

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Quarterly Results

Selected Consolidated Statement of Operations
(in thousands, except per share)

	Quarter Ended 30-Sep 2007 (unaudited)	Quarter Ended 30-Sep 2006 (unaudited)	Six Months Ended 30-Sep 2007 (unaudited)	Six Months Ended 30-Sep 2006 (unaudited)	Year Ended 31-Mar 2007 (audited)
Net Sales	$ 38,414	$ 35,715	$ 76,866	$67,404	136,779
Total Cost of Sales	31,716	26,850	63,406	50,093	105,506
Gross profit	6,698	8,865	13,460	17,311	31,273
SG&A Expenses	4,642	4,892	9,110	9,558	18,957
Operating Income	1,681	3,973	4,985	7,839	13,692
Other Income Net	(375)		635	86	547
Income Before Income Taxes	1,828	4,116	5,367	8,083	14,239
Income Taxes	75	394	273	545	1,239
Minority Interest	(2)	125	228	538	833
Net Income	$ 1,755	3,597	4,866	7,000	12,167
Diluted earnings per share	$ 0.11	0.24	0.32	0.47	0.81
Diluted weighted average common shares outstanding	15,496	15,005	15,287	14,959	15,040

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Healthy Balance Sheet

(In thousands, except per share data)

Fiscal Year	2004	2005	2006	2007
Cash & Cash Equivalents	$ 30,193	$ 28,073	$ 25,369	$ 24,549
Working Capital	$ 52,876	$ 57,576	$ 55,114	$ 58,672
Short-term Debt	None	None	None	None
Long-Term Debt	None	None	None	None
Total Assets	$113,534	$139,976	$130,670	$141,210
Shareholder's Equity	$ 89,730	$104,767	$106,768	$111,655
Book Value/Share	$ 6.54	$ 7.09	$ 5.8	$ 8.1
Shares Outstanding	13,274	14,779	15,014	15,040

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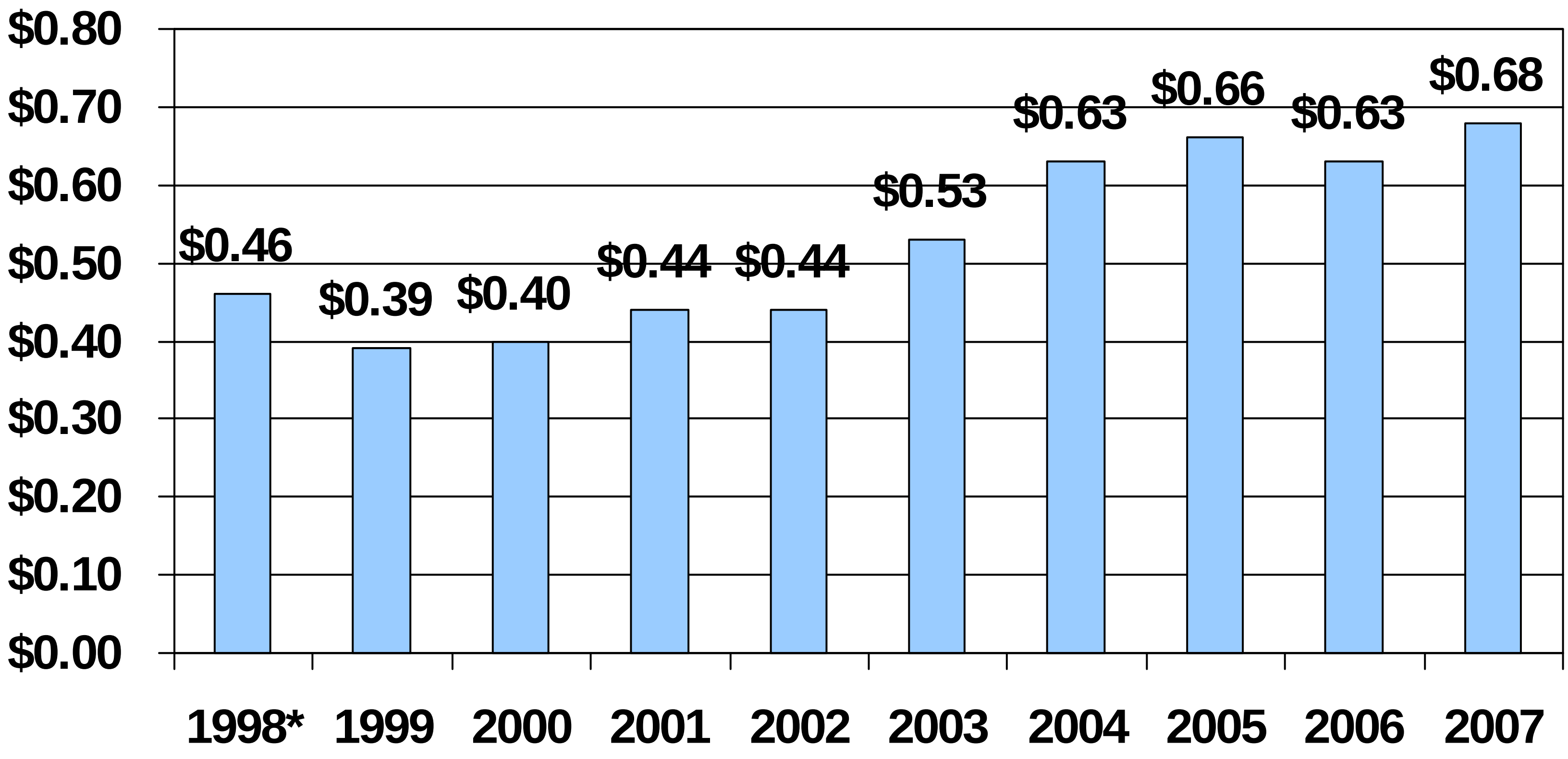
Cash Dividend History



**Includes a special cash dividend of $0.25 per share*

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Conclusion

- Benefiting from manufacturing outsourcing to China
- Strong growth at electronics manufacturing division driven by penetration of audio niche
- High yield and strong cash position