

Deswell Industries Announces

First Quarter Results

FOR IMMEDIATE RELEASE

MACAO (September 10, 2009) - Deswell Industries, Inc. (NASDAQ: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2009.

Sales for the first quarter ended June 30, 2009 were \$22.7 million, a decrease of 35.1% compared to sales of \$35 million for the same quarter ended June 30, 2008, mainly due to the continuing decline in demand from the professional audio and instrument equipment market as well as lower sales at the Company's injection molding subsidiary. The Company reported operating loss in the first quarter of \$0.27 million, compared to operating income of \$1.31 million for the same quarter of 2008. Net loss for the first quarter ended June 30, 2009 was \$0.25 million compared to net income of \$1.29 million for the quarter ended June 30, 2008. Basic net loss per share and diluted net loss per share for the quarter were \$0.02 and \$0.02 respectively, (based on 15,791,000 and 15,880,000 weighted average shares outstanding, respectively) compared to basic net income per share and diluted net income per share of \$0.08 and \$0.08 respectively, (based on 15,791,000 and 15,815,000 weighted average shares outstanding, respectively) for the quarter ended June 30, 2008.

Total gross margin was 15.8% in the first quarter ended June 30, 2009 compared to 16.8% in the same quarter last year. Gross profit in the plastic segment increased to 20.8% of net sales for the first quarter compared to 15.4% of net sales for the same quarter of last year. The increased gross margin in the plastic segment was mainly due to lower materials usage and lower plastic resin price, as well as savings in labor cost due to headcount reduction. Gross margin in the electronic and metallic segment decreased to 10.0% of net sales for the first quarter ended June 30, 2009, compared to 18.6% of net sales for the year-ago quarter. The decrease in gross margin in the electronic and metallic segment was mainly the result of higher materials cost caused by shift to higher-end products, and one off customer sales discounts offsetting the savings in labor cost.

The Company's financial position remained strong at the end of the first fiscal quarter, with \$29.4 million cash and cash equivalents at June 30, 2009, compared to \$23.1 million at March 31, 2009. Working capital totaled \$54.3 million as of June 30, 2009, versus \$52.6 million as of March 31, 2008. The Company has no long-term or short-term borrowings.

Mr. Franki Tse, chief executive officer, commented, "Orders in both operations diminished during last quarter. Even with almost 100% of the same customer portfolio and product mix as last fiscal year ended March 31, 2009, we saw significantly less orders than expected. In the plastic division, we may see some rush orders for consumer-related products late this year which would impact sales a bit. Sales at our electronics division were soft due to a continued slow down in the pro-audio market. That being said, we are cautiously optimistic about the prospect of some new projects for this division. We have enhanced our sales force and are exploring new market segments, such as audio amplifiers, products with LCD display and others."

Mr. Tse continued, "We will also continue to manage our manufacturing cost, headcount and inventory in order to maintain our very strong balance sheet. Given our loss for the quarter, we have suspended the dividend to conserve cash and best position us to drive future performance."

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 N&J Company, Digidesign Inc., Vtech Telecommunications Ltd., Inter-Tel Incorporated, Focusrite Audio Engineering, Ltd. .

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.

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DESWELL INDUSTRIES, INC.**CONSOLIDATED BALANCE SHEET**

(U.S. dollars in thousands)

| | June 30, <u>2009</u> (Unaudited) | March 31, <u>2009</u> (Audited) |
|--|--|---------------------------------------|
| ASSETS | | |
| Current assets : | | |
| Cash and cash equivalents | \$ 29,447 | \$ 23,134 |
| Marketable securities | 137 | 100 |
| Accounts receivable, net | 18,763 | 22,227 |
| Inventories (note 2) | 17,600 | 21,445 |
| Assets held for sale | 987 | 987 |
| Prepaid expenses and other current assets | 2,150 | 1,887 |
| Total current assets | 69,084 | 69,780 |
| Property, plant and equipment - net | 64,739 | 66,564 |
| Deferred income tax assets | 746 | 746 |
| Goodwill | 392 | 392 |
| Total assets | <u>\$ 134,961</u> | <u>\$ 137,482</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 7,894 | \$ 10,370 |
| Accrued payroll and employee benefits | 1,129 | 2,473 |
| Customer deposits | 1,782 | 1,460 |
| Other accrued liabilities | 3,236 | 2,167 |
| Income taxes payable | 741 | 705 |
| Deferred income tax liability | - | - |
| Total current liabilities | <u>14,782</u> | <u>17,175</u> |
| Minority interests | <u>-</u> | <u>-</u> |
| Shareholders' equity | | |
| Common stock | | |
| - authorized 30,000,000 shares; issued and outstanding 15,790,810 shares at June 30, 2009 and March 31, 2008, respectively | 49,923 | 49,923 |
| Additional paid-in capital | 7,896 | 7,771 |
| Accumulated other comprehensive income | 5,316 | 5,316 |
| Retained earnings | 57,044 | 57,297 |
| Total shareholders' equity | <u>120,179</u> | <u>120,307</u> |
| Total liabilities and shareholders' equity | <u>\$ 134,961</u> | <u>\$ 137,482</u> |

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

| | Quarter ended | |
|---|------------------|-----------------|
| | June 30, | |
| | <u>2009</u> | <u>2008</u> |
| | (Unaudited) | |
| Net sales | \$ 22,738 | \$ 35,039 |
| Cost of sales | <u>19,135</u> | <u>29,138</u> |
| Gross profit | 3,603 | 5,901 |
| Selling, general and administrative expenses | 3,916 | 5,238 |
| Other income/(expenses), net | <u>41</u> | <u>647</u> |
| Operating income | (272) | 1,310 |
| Interest expense | - | - |
| Non-operating income/(expenses), net | <u>55</u> | <u>27</u> |
| Income before income taxes | (217) | 1,337 |
| Income taxes | <u>36</u> | <u>44</u> |
| Income before minority interests | (253) | 1,293 |
| Minority interests | <u>-</u> | <u>-</u> |
| Net income | \$ (253) | \$ 1,293 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | <u>\$ -</u> | <u>\$ 1,143</u> |
| Comprehensive income | <u>\$ (253)</u> | <u>\$ 2,436</u> |
| Net income per share (note 3) | | |
| Basic: | | |
| Net income per share | <u>\$ (0.02)</u> | <u>\$ 0.08</u> |
| Weighted average number of shares outstanding (in thousands) | <u>15,791</u> | <u>15,791</u> |
| Diluted: | | |
| Net income per share | <u>\$ (0.02)</u> | <u>\$ 0.08</u> |
| Weighted average number of shares outstanding (in thousands) | <u>15,880</u> | <u>15,815</u> |