

Deswell Announces Third Quarter Results

- Company Announces Third Quarter Dividend of \$0.04 Per Share -

MACAO (March 3, 2009) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2008.

Net sales for the third quarter ended December 31, 2008 were \$37 million, an increase of 4.8% compared to sales of \$35.4 million for the same quarter ended December 31, 2007, mainly due to an increase in business from the Company's plastic segment offsetting the continuing decline in demand from the professional audio and instrument equipment market. The Company reported operating income in the third quarter of \$0.9 million, compared to operating income of \$3.0 million for the same quarter of 2007. Net income for the third quarter ended December 31, 2008 was \$1.0 million compared to net income of \$3.0 million for the quarter ended December 31, 2007. Basic net income per share and diluted net income per share for the quarter decreased to \$0.06 and \$0.06 respectively, (based on 15,791,000 and 15,791,000 weighted average shares outstanding, respectively) compared to \$0.19 and \$0.19 respectively, (based on 15,791,000 and 15,791,000 weighted average shares outstanding, respectively) for the quarter ended December 31, 2007.

Total gross margin was 17.3% in the third quarter ended December 31, 2008 compared to 22.4% in the same quarter last year. Gross profit in the plastic segment decreased to 25.1% of net sales for the third quarter compared to 29.3% of net sales for the same quarter of last year. The decreased gross margin in the plastic segment was mainly attributed to an increase in material cost due to increases in material usage and costs, renminbi appreciation, and an increase in factory overhead cost which offset the increase in sales when compared to the same quarter last year. Gross profit in the electronic and metallic segment decreased to 7.3% of net sales for the third quarter ended December 31, 2008, compared to 17.7% of net sales for the year-ago quarter. Approximately 9.4% of the decline in gross margin in the electronic and metallic segment was attributed to a \$1.6 million provision for excess inventory in the third quarter, with the balance being the result of lower demand for professional audio equipment.

Net sales for the nine months ended December 31, 2008 were \$104 million, a decrease of 7%, compared to sales of \$112.3 million for the corresponding period in 2007. Operating income decreased to \$0.5 million, compared to \$8.0 million of operating income for the first nine months of fiscal 2007. Net income decreased to \$0.6 million, compared to \$7.8 million for the nine months ended December 31, 2007. Basic and diluted net income per share for the nine months decreased to \$0.04 and \$0.04, respectively (based on 15,791,000 and 15,799,000 weighted average share outstanding, respectively) compared to \$0.51 and \$0.51, respectively (based on 15,429,000 and 15,475,000 weighted average shares outstanding, respectively), for the nine months ended December 31, 2007.

The Company's financial position remained strong at the end of the third quarter of fiscal year 2008, with \$15.3 million cash and cash equivalents at December 31, 2008, compared to \$22.7 million on March 31, 2008. Working capital totaled \$50.4 million as of December 31, 2008, versus \$54.8 million as of March 31, 2008. Furthermore, the Company has no long-term or short-term borrowings at December 31, 2008.

Mr. Franki Tse, chief executive officer, commented, "During the third quarter of fiscal year 2008, sales volume of our plastics division grew by 46% due to increased orders from existing customers, as compared to the same quarter in the prior year. Unfortunately, this growth was more than offset by softer sales and higher manufacturing costs at our electronics division. We have reduced our headcount from 5,200 to 4,000 in the third quarter in order to minimize our cost and expenses and will continue to monitor the situation."

Mr. Tse continued, "The world economic crisis will inevitably affect our performance during the year 2009. Sales are expected to slow and we will continue to take proactive steps to maximize margins in both operations. We will also focus on strengthening our core business and working on new projects and customers. It may be a tough road ahead but we believe we are in a much stronger position than much of our competition in the region and we will hopefully emerge from this economic downturn much stronger."

Third Quarter Dividends

The Company also announced that on March 3, 2009 its board of directors declared a dividend of \$0.04 per share for the fiscal third quarter ended December 31, 2008. The dividend will be payable on March 25, 2009 to shareholders of record as of March 12, 2009.

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, N&J Company 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.

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

	Quarter ended		Nine months ended	
	December 31,		December 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Unaudited)		(Unaudited)	
Net sales	\$ 37,101	\$ 35,416	\$104,378	\$112,282
Cost of sales	<u>30,688</u>	<u>27,493</u>	<u>88,541</u>	<u>90,899</u>
Gross profit	6,413	7,923	15,837	21,383
Selling, general and administrative expenses	5,015	5,209	15,527	14,319
Other income/(expenses), net	<u>(520)</u>	<u>319</u>	<u>215</u>	<u>954</u>
Operating income	878	3,033	525	8,018
Interest expense	-	-	-	-
Non-operating income/(expenses), net	<u>129</u>	<u>118</u>	<u>147</u>	<u>500</u>
	1,007	3,151	672	8,518
Income taxes	<u>20</u>	<u>196</u>	<u>67</u>	<u>469</u>
Income before minority interests	987	2,955	605	8,049
Minority interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>228</u>
Net income	987	2,955	605	7,821
Other comprehensive income				
Foreign currency translation adjustment	<u>-</u>	<u>1,171</u>	<u>1,585</u>	<u>1,341</u>
Comprehensive income	<u>987</u>	<u>4,126</u>	<u>2,190</u>	<u>9,162</u>
Net income per share (note 3)				
Basic:				
Net income per share	<u>\$ 0.06</u>	<u>\$ 0.19</u>	<u>\$ 0.04</u>	<u>\$ 0.51</u>
Weighted average number of shares outstanding (in thousands)	<u>15,791</u>	<u>15,791</u>	<u>15,791</u>	<u>15,429</u>
Diluted:				
Net income per share	<u>\$ 0.06</u>	<u>\$ 0.19</u>	<u>\$ 0.04</u>	<u>\$ 0.51</u>
Weighted average number of shares outstanding (in thousands)	<u>15,791</u>	<u>15,791</u>	<u>15,799</u>	<u>15,475</u>

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

	Dec. 31, <u>2008</u> (Unaudited)	March 31, <u>2008</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 15,275	\$ 22,718
Marketable securities	97	116
Accounts receivable, net	27,804	21,397
Inventories	27,368	26,462
Prepaid expenses and other current assets	3,078	3,205
Income taxes receivable	-	3
Total current assets	<u>73,622</u>	<u>73,901</u>
Property, plant and equipment - net	69,316	65,885
Deferred income tax assets	230	230
Goodwill	389	391
Total assets	<u>\$ 143,557</u>	<u>\$ 140,407</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 16,067	\$ 12,527
Customer deposits and accrued expenses	6,652	5,994
Income taxes payable	549	629
Total current liabilities	<u>23,268</u>	<u>19,150</u>
Minority interests	<u>-</u>	<u>-</u>
 Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
15,790,810 shares at December 31, 2008 and		
15,790,810 shares at March 31, 2008	49,923	49,923
Additional paid-in capital	7,709	7,709
Accumulated other comprehensive income	5,319	3,734
Retained earnings	<u>57,338</u>	<u>59,891</u>
Total shareholders' equity	<u>120,289</u>	<u>121,257</u>
Total liabilities and shareholders' equity	<u>\$ 143,557</u>	<u>\$ 140,407</u>