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**DESWELL INDUSTRIES ANNOUNCES  
FOURTH QUARTER AND YEAR-END RESULTS**

**- Net Income Before Tax Increases 40% For The Quarter -**

**- Company Also Announces Fourth Quarter Dividend of \$0.12 Per Share -**

MACAO (July 3, 2008) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fourth quarter and year ended March 31, 2008.

Net sales for the year ended March 31, 2008 were \$143.8 million, an increase of 5.1% compared to sales of \$136.8 million for the year ended March 31, 2007. Operating income decreased 33.6% to \$9.1 million, compared to \$13.7 million for the year ended March 31, 2007, and net income decreased 20% to \$9.7 million, compared to \$12.2 million in the previous year. Basic net income per share and diluted net income per share decreased to \$0.63 and \$0.63 respectively, (based on 15,517,000 and 15,566,000 weighted average shares outstanding, respectively) compared to \$0.81 and \$0.81 respectively, (based on 14,956,000 and 15,048,000 weighted average shares outstanding, respectively) for the year ended March 31, 2007.

Deswell reported that net sales for the fourth quarter ended March 31, 2008 were \$31.5 million, compared to \$30.4 million for the same quarter of 2007, an increase of 3.8%. Revenues at Deswell's plastics division increased 34.3% in the fourth quarter while revenues at the company's electronic assembly division decreased 13.1% compared to the corresponding period in the previous year.

Total gross margin increased to 18.3% in the fourth quarter ended March 31, 2008 from 17.1% in the fourth quarter last year. Gross profit in the plastic segment decreased to 26.3% of net sales for the quarter compared to 29.4% of net sales for the same quarter of last year. The decreased gross margin in the plastic segment was mainly a combined effect of a change in customer and product mix to expand our sales in relatively lower margin orders, an increase in resin cost and an increase in labor and overhead cost due to renminbi appreciation and implementation of a new China Labor Ordinance commencing January 1, 2008 compared to the same quarter last year. Gross profit in the electronic

and metallic segment increased to 11.4% of net sales for the quarter ended March 31, 2008 compared to 10.4% of net sales for the year-ago quarter.

Operating income totaled \$1.1 million, compared to \$0.7 million for the same quarter of 2007. Net income before tax for the quarter increased 40.3% to \$1.1 million as compared to \$0.8 million for the year-ago quarter. Net income after tax for the quarter increased to \$1.9 million as compared to \$0.4 million for the year-ago quarter. Basic net income per share and diluted net income per share for the quarter increased to \$0.12 and \$0.12, respectively (based on 15,791,000 and 15,827,000 weighted average shares outstanding, respectively), compared to \$0.03 and \$0.03, respectively (based on 15,023,000 and 15,159,000 weighted average shares outstanding, respectively), for the quarter ended March 31, 2007.

Other operating income for the quarter increased \$982,000 to \$884,000 compared to other expenses of \$98,000 for the quarter ended March 31, 2007.

On a segment basis, other operating income attributable to the plastic segment was \$955,000, an increase of \$974,000 compared to other expenses of \$19,000 for the same quarter last year. The increase was mainly attributable to an exchange translation gain of \$1.1 million related to our subsidiary Jetcrown Dongguan Industrial Limited, using Renminbi as its functional currency, offset by an allowance for doubtful account receivables of \$124,000 in the quarter ended March 31, 2008.

The company also reported a write back of income tax provision of \$348,000 during the quarter for calendar tax years 2006 and 2007 as compared to an income tax provision of \$72,000 in the year-ago quarter; together with a decrease in deferred tax liability of \$237,000 and an increase in deferred tax asset of \$230,000 during the quarter as compared with a deferred tax provision of \$321,000 for the year-ago quarter.

The Company's balance sheet remains strong, with cash and cash equivalents on March 31, 2008 totaling \$22.7 million, compared to \$24.5 million on March 31, 2007. Working capital totaled \$57.6 million as of March 31, 2008, 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, "We are encouraged by the sales increase we reported in the fourth quarter driven by strong sales in our plastics division. That being said, our manufacturing costs are still being impacted by crude oil price increases, RMB appreciation, resin cost increases, labor/electricity rate increases, as well as the American economic situation and inflation in China."

Mr. Tse continued, "We expect continued strong sales in our plastics division in the coming quarters. Sales of professional audio equipment at our electronics division should be flat for the duration of fiscal 2009, but we are developing new electronics business in other markets and expect our overall electronics business to improve for fiscal 2009. At the moment we are devoting resources to setting up a new LCD panel assembly line, installing 25 new mid-sized injection machines and replacing some old ones, and renting two warehouses (totaling about 5,500 square meters) in order to support the expansion of our operations. These investments will be financed through our internal reserves and working capital."

#### **Fourth Quarter Dividends**

The Company also announced that on July 1, 2008 its board of directors declared a dividend of \$0.12 per share for the fourth quarter, bringing cash dividends per share for the year ended March 31, 2008 to \$0.56 per share. The dividend will be payable on July 29, 2008 to shareholders of record as of July 8, 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](http://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 STATEMENTS OF OPERATIONS (UNAUDITED)**  
(U.S. dollars in thousands, except per share data)

	Quarter ended March 31,		Year ended March 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(Unaudited)		(Unaudited)	(Audited)
Net sales	\$ 31,524	\$ 30,373	\$ 143,806	\$ 136,779
Cost of sales	25,765	25,165	116,664	105,506
Gross profit	<u>5,759</u>	<u>5,208</u>	<u>27,142</u>	<u>31,273</u>
Selling, general and administrative Expenses	5,564	4,439	19,883	18,957
Other income/(expenses), net	884	(98)	1,838	1,376
Operating income	<u>1,079</u>	<u>671</u>	<u>9,097</u>	<u>13,692</u>
Interest expense	-	-	-	-
Non-operating income/(expenses), net	21	113	521	547
Income before income taxes	<u>1,100</u>	<u>784</u>	<u>9,618</u>	<u>14,239</u>
Income taxes	(815)	393	(346)	1,239
Income before minority interests	<u>1,915</u>	<u>391</u>	<u>9,964</u>	<u>13,000</u>
Minority interests	-	(4)	228	833
Net income	<u>\$ 1,915</u>	<u>\$ 395</u>	<u>\$ 9,736</u>	<u>\$ 12,167</u>
Other comprehensive income				
Foreign currency translation adjustment	1,286	-	2,627	670
Comprehensive income	<u>\$ 3,201</u>	<u>\$ 395</u>	<u>\$ 12,363</u>	<u>\$ 12,837</u>
Net income per share				
Basic:				
Net income per share	<u>\$0.12</u>	<u>\$0.03</u>	<u>\$0.63</u>	<u>\$0.81</u>
Weighted average common shares outstanding (in thousands)	<u>15,791</u>	<u>15,023</u>	<u>15,517</u>	<u>14,956</u>
Diluted:				
Net income per share	<u>\$0.12</u>	<u>\$0.03</u>	<u>\$0.63</u>	<u>\$0.81</u>
Weighted average common shares outstanding (in thousands)	<u>15,827</u>	<u>15,159</u>	<u>15,566</u>	<u>15,048</u>

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**DESWELL INDUSTRIES, INC.****Consolidated Balance Sheet  
(U.S. dollars in thousands)**

	March 31, 2008 (Unaudited)	March 31, 2007 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,718	\$ 24,549
Restricted cash	-	-
Marketable securities	116	107
Accounts receivable, net	21,397	21,063
Inventories	26,462	29,495
Prepaid expenses and other current assets	5,347	4,999
Income taxes receivable	<u>3</u>	<u>130</u>
Total current assets	76,043	80,343
Property, plant and equipment - net	64,455	60,157
Deferred tax asset	230	-
Goodwill	<u>391</u>	<u>710</u>
Total assets	<u>\$ 141,119</u>	<u>\$ 141,210</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,527	\$ 15,865
Customer deposits and accrued expenses	5,997	5,035
Income taxes payable	95	450
Deferred tax liability	<u>84</u>	<u>321</u>
Total current liabilities	<u>18,703</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 March 31, 2008 and		
15,038,730 at March 31, 2007	49,923	42,393
Additional paid-in capital	7,991	7,601
Accumulated other comprehensive income	3,734	1,106
Retained earnings	<u>60,768</u>	<u>60,555</u>
Total shareholders' equity	<u>122,416</u>	<u>111,655</u>
Total liabilities and shareholders' equity	<u>\$ 141,119</u>	<u>\$ 141,210</u>

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