

Deswell Industries Announces

Fourth Quarter And Year-end Results

FOR IMMEDIATE RELEASE

MACAO (July 14, 2009) - Deswell Industries, Inc. (NASDAQ: DSWL) today announced its financial results for the fiscal fourth quarter and year ended March 31, 2009.

Net sales for the fourth quarter ended March 31, 2009 were \$27.4 million, a decrease of 13.2% compared to sales of \$31.5 million for the same quarter ended March 31, 2008, mainly due to the continuing decline in demand from the professional audio and instrument equipment market which offset an increase in business from the Company's plastic segment. The Company reported operating income in the fourth quarter of \$0.21 million, compared to operating income of \$0.65 million for the same quarter of 2008. Net income for the fourth quarter ended March 31, 2009 was \$0.59 million compared to net income of \$1.04 million for the quarter ended March 31, 2008. Basic net income per share and diluted net income per share for the quarter decreased to \$0.04 and \$0.04 respectively, (based on 15,791,000 and 15,821,000 weighted average shares outstanding, respectively) compared to \$0.07 and \$0.07 respectively, (based on 15,791,000 and 15,810,000 weighted average shares outstanding, respectively) for the quarter ended March 31, 2008.

Total gross margin was 15.8% in the fourth quarter ended March 31, 2009 compared to 16.0% in the same quarter last year. Gross profit in the plastic segment decreased to 18.9% of net sales for the fourth quarter compared to 21.4% of net sales for the same quarter of last year. The decreased gross margin in the plastic segment was mainly the effect of an increase in material cost due to increase in material usage as a result of change in customer mix, and 5.3% appreciation in renminbi, as compared to the same quarter last year. Gross margin in the electronic and metallic segment increased to 12.4% of net sales for the fourth quarter ended March 31, 2009, compared to 11.4% of net sales for the year-ago quarter. The increase in gross margin in the electronic and metallic segment was mainly the result of a decrease in raw materials cost and savings in labor cost due to headcount reduction.

Net sales for the year ended March 31, 2009 were \$131.7 million, a decrease of 8.4%, compared to sales of \$143.8 million for the corresponding period in 2008. Operating income decreased to \$0.75 million, compared to \$8.7 million of operating income for the fiscal year ended March 31, 2008. Net income decreased to \$1.20 million, compared to \$8.86 million for the year ended March 31, 2008. Basic and diluted net income per share for the year decreased to \$0.08 and \$0.08, respectively (based on 15,791,000 and 15,805,000 weighted average shares outstanding, respectively) compared to \$0.57 and \$0.57, respectively (based on 15,517,000 and 15,556,000 weighted average shares outstanding, respectively), for the year ended March 31, 2008.

The Company's financial position remained strong at the end of the fourth quarter of fiscal year 2008, with \$23.1 million cash and cash equivalents at March 31, 2009, compared to \$22.7 million on March 31, 2008. Working capital totaled \$51.6 million as of March 31, 2009, versus \$54.8 million as of March 31, 2008. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2009.

Mr. Franki Tse, chief executive officer, commented, "Strong sales performance in our plastic division was unfortunately offset by a decrease in sales in the Pro-audio division. We remain focused on cost effectiveness and will continue to tightly monitor expenses and overhead in order to maintain our highly cost effective operation."

Mr. Tse continued, "There is no doubt that the world economic downturn has affected our business. As an export-oriented manufacturing company based in China, Deswell is inevitably affected by the worldwide business environment. However, recently we have seen a slowing in the downturn and my communications with and personal visits to many of our major customers as well as the numbers of on-hand new projects, indicate a positive outlook. We believe that we will stay healthy financially and that Deswell will weather the worldwide economic decline and emerge stronger than many of our competitors in this region."

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)

	March 31, <u>2009</u> (Unaudited)	March 31, <u>2008</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 23,134	\$ 22,718
Marketable securities	100	116
Accounts receivable, net	22,227	21,397
Inventories	21,445	26,462
Prepaid expenses and other current assets	1,887	3,205
Income taxes receivable	--	3
Total current assets	68,793	73,901
Property, plant and equipment - net	67,551	65,885
Deferred income tax assets	746	230
Goodwill	392	391
Total assets	\$ 137,482	\$ 140,407
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 10,370	\$ 12,527
Customer deposits and accrued expenses	6,100	5,994
Income taxes payable	705	629
Total current liabilities	17,175	19,150
Minority interests	--	--
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding 15,790,810 shares at March 31, 2009 and 15,790,810 shares at March 31, 2008	49,923	49,923
Additional paid-in capital	7,771	7,709
Accumulated other comprehensive income	5,316	3,734
Retained earnings	57,297	59,891
Total shareholders' equity	120,307	121,257
Total liabilities and shareholders' equity	\$ 137,482	\$ 140,407

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

	Quarter ended		Year ended	
	March 31,		March 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Net sales	\$ 27,357	\$ 31,524	\$ 131,738	\$ 143,806
Cost of sales	<u>23,028</u>	<u>26,474</u>	<u>111,570</u>	<u>117,373</u>
Gross profit	4,329	5,050	20,168	26,433
Selling, general and administrative expenses	3,763	5,282	19,291	19,601
Other income/(expenses), net	<u>(347)</u>	<u>884</u>	<u>(132)</u>	<u>1,838</u>
Operating income	219	652	745	8,670
Non-operating income/(expenses), net	<u>20</u>	<u>21</u>	<u>168</u>	<u>521</u>
	239	673	913	9,191
Income taxes	<u>(350)</u>	<u>(365)</u>	<u>(282)</u>	<u>104</u>
Income before minority interests	589	1,038	1,195	9,087
Minority interests	<u>--</u>	<u>--</u>	<u>--</u>	<u>228</u>
Net income	589	1,038	1,195	8,859
Other comprehensive income				
Foreign currency translation adjustment	<u>--</u>	<u>1,286</u>	<u>1,582</u>	<u>2,628</u>
Comprehensive income	<u><u>589</u></u>	<u><u>2,324</u></u>	<u><u>2,777</u></u>	<u><u>11,487</u></u>
Net income per share (note 3)				
Basic:				
Net income per share	<u><u>\$ 0.04</u></u>	<u><u>\$ 0.07</u></u>	<u><u>\$ 0.08</u></u>	<u><u>\$ 0.57</u></u>
Weighted average number of shares outstanding (in thousands)	<u><u>15,791</u></u>	<u><u>15,791</u></u>	<u><u>15,791</u></u>	<u><u>15,517</u></u>
Diluted:				
Net income per share	<u><u>\$ 0.04</u></u>	<u><u>\$ 0.07</u></u>	<u><u>\$ 0.08</u></u>	<u><u>\$ 0.57</u></u>
Weighted average number of shares outstanding (in thousands)	<u><u>15,821</u></u>	<u><u>15,810</u></u>	<u><u>15,805</u></u>	<u><u>15,556</u></u>