

Deswell Announces First Quarter Results

- Company Announces First Quarter Dividend of \$0.03 Per Share -

FOR IMMEDIATE RELEASE

MACAO (September 8, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2011.

Net sales for the first quarter ended June 30, 2011 were \$18.3 million, a decrease of 10.6% compared to net sales of \$20.5 million for the same quarter ended June 30, 2010. Net sales decreased by 21.8% to \$8.4 million in the plastic segment offsetting the increase of 1.9% to \$9.9 million in the Company's electronic and metallic segment. The operating income in the first quarter was \$0.1 million, compared to an operating loss of \$2.7 million for the same quarter of fiscal 2011.

Total gross margin increased to 17.3% in the first quarter ended June 30, 2011 compared to 4.4% in the same quarter last year. Gross profit margin in the plastic segment increased to 22.8% of net sales for the first quarter of fiscal 2012 compared to 1.6% of net sales for the same quarter of last fiscal year. The increase of gross profit margin was mainly due to an increase in the selling price of products, cease of production of low profit margin items and improvement in operating efficiency. Gross profit margin in the electronic and metallic segment increased to 12.6% of net sales for the first quarter ended June 30, 2011 compared to 7.5% of net sales for the year-ago quarter. The increase in gross margin in the electronic and metallic segment was mainly attributable to an increase in the selling price of products as well as improvement in operating efficiency.

The Company reported net income of \$0.08 million for the first quarter ended June 30, 2011 compared to a net loss of \$2.3 million for the quarter ended June 30, 2010. Basic and diluted net income per share was \$0.0046, (based on 16,197,000 and 16,204,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of (\$0.14), (based on 16,192,000 and 16,205,000 weighted average shares outstanding, respectively) for the same quarter ended June 30, 2010.

The Company's financial position remained strong at the end of the first quarter of fiscal year 2012, with \$25.6 million in cash and cash equivalents at June 30, 2011, compared to \$35.6 million at March 31, 2011. Working capital totaled \$60.0 million as of June 30, 2011, versus \$59.7 million as of March 31, 2011. Furthermore, the Company has no long-term or short-term borrowings at June 30, 2011.

Mr. Franki Tse, chief executive officer, commented, "We are pleased with our return to a modest profit for the quarter. These operating results reflect improved pricing coupled with reduced headcount and SG&A expenses. The worldwide economy remains uncertain and we continue to see RMB appreciation and manufacturing cost increases in China. That said, we will continue to minimize costs while staying very focused on new business development. Given our strong balance sheet with a healthy cash position and no debt, we are pleased to declare a \$0.03 dividend for the quarter."

First Quarter Dividend

The Company also announced that on September 7, 2011 its board of directors declared a dividend of \$0.03 per share for the fiscal first quarter ended June 30, 2011. The dividend will be payable on October 12, 2011 to shareholders of record as of September 16, 2011.

Deswell Annual Meeting September 22, 2011

Deswell will host its Annual Meeting of Shareholders at the Sutton Meeting Room of the Four Season's Hotel, 57 East 57th Street, New York, New York 10022, USA on Thursday, September 22, 2011 at 3:00 p.m. New York time.

In addition to the shareholder meeting, Deswell management will be meeting with members of the investment community in Boston on Wednesday, September 21 and in New York on Thursday, September 22. Should you be interested in inquiring about a possible meeting with management, please contact jnesbett@institutionalms.com.

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.

To learn more about Deswell Industries, Inc., please visit the Company's website 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.

Investor Relations Contact:

John Nesbett/Jennifer Belodeau

Institutional Marketing Services (IMS)

203.972.9200

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

	June 30, <u>2011</u> (Unaudited)	March 31, <u>2011</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 25,646	\$ 35,635
Fixed deposits maturing over three months	3,089	-
Marketable securities	903	1,045
Available-for-sale securities	8,148	-
Accounts receivable, net	17,130	17,210
Inventories	18,990	19,517
Prepaid expenses and other current assets	<u>2,389</u>	<u>2,154</u>
Total current assets	76,295	75,561
Property, plant and equipment - net	49,763	51,052
Deferred income tax assets	157	154
Goodwill	<u>392</u>	<u>392</u>
Total assets	<u><u>\$ 126,607</u></u>	<u><u>\$ 127,159</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,939	\$ 6,864
Accrued payroll and employee benefits	3,846	3,971
Customer deposits	2,463	1,965
Other accrued liabilities	1,381	1,453
Income taxes payable	627	596
Deferred income tax liabilities	213	213
Dividend payable	<u>810</u>	<u>810</u>
Total current liabilities	<u>16,279</u>	<u>15,872</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding June 30, 2011 - 16,196,810; March 31, 2011 - 16,194,810	50,816	50,809
Additional paid-in capital	7,716	7,719
Accumulated other comprehensive income	5,088	5,316
Retained earnings	<u>46,708</u>	<u>47,443</u>
Total shareholders' equity	<u>110,328</u>	<u>111,287</u>
Total liabilities and shareholders' equity	<u><u>\$ 126,607</u></u>	<u><u>\$ 127,159</u></u>

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

	Quarter ended June 30, <u>2011</u>	Quarter ended June 30, <u>2010</u>
Net sales	\$ 18,324	\$ 20,486
Cost of sales	<u>15,163</u>	<u>19,585</u>
Gross profit	3,161	901
Selling, general and administrative expenses	3,095	3,822
Other income, net	<u>48</u>	<u>243</u>
Operating income (loss)	114	(2,678)
Non-operating income (expenses), net	<u>(11)</u>	<u>397</u>
Income (loss) before income taxes	103	(2,281)
Income taxes	<u>28</u>	<u>(2)</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ 75	\$ (2,279)
Other comprehensive loss		
Unrealized loss on available for sale securities	<u>\$ (228)</u>	<u>\$ -</u>
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (153)</u>	<u>\$ (2,279)</u>
Net income (loss) per share attributable to Deswell Industries, Inc.		
Basic:		
Net income (loss) per share	<u>\$ 0.0046</u>	<u>\$ (0.14)</u>
Weighted average common shares outstanding shares in thousands)	<u>16,197</u>	<u>16,192</u>
Diluted:		
Net income (loss) per share	<u>\$ 0.0046</u>	<u>\$ (0.14)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,204</u>	<u>16,205</u>