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DESWELL INDUSTRIES, INC. ANNOUNCES FIRST-QUARTER RESULTS

- 10% Increase in First Quarter Net Sales -

-Company also Announces First Quarter Dividend of \$0.24 Per Share-

HONG KONG (August 9, 2004) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the first quarter ended June 30, 2004.

Net sales for the quarter ended June 30, 2004 were \$28.8 million, an increase of 10.4% compared to net sales of \$26.1 million for the quarter ended June 30, 2003. Operating income increased 3.6% to \$4.8 million, compared to \$4.6 million for the same quarter in 2003. Net income for the quarter decreased 8.2% to \$4.0 million compared to \$4.4 million for the year-ago quarter. The basic earnings per share and diluted earnings per share decreased to \$0.44 and \$0.42, respectively (based on 9,149,000 and 9,485,000 weighted average shares outstanding, respectively), compared to \$0.48 and \$0.47, respectively (based on 9,065,000 and 9,274,000 weighted average shares outstanding, respectively), in the first quarter ended June 30, 2003.

The Company's balance sheet remains strong. The Company's cash and cash equivalents for the quarter were \$27.8 million, as compared to \$30.2 million on March 31, 2004. Working capital was \$54.9 million as of June 30, 2004, versus \$52.9 million as of March 31, 2004. The Company has no long-term or short-term borrowings.

Mr. Richard Lau, chairman and chief executive officer, commented, "The higher in sales for the first quarter is mainly attributable to the increase in new tooling orders from existing customers in our plastics division and the increase in orders from new customers in our electronic & metallic division. In the plastic division, we are facing an increase in raw

material pricing of approximately 50% as well as an unstable supply of resin, particularly during the past few months. We could only pass through about half of this price increase to our customers. Furthermore some of the products that we are manufacturing or providing plastic parts for are also seeing increased competition in the marketplace which has led to pricing pressure. To overcome this, we are stringently managing our direct expenses. We are very focused on further penetrating the market for higher margin large-scale and high-precision molds where we have a significant competitive advantage over competitors. Mr. Lau continued, "In our electronic and metallic division, we are satisfied with its 16% growth this quarter and optimistic about its continued growth in the coming year."

Annual General Meeting

The Company announced that the 2004 Annual General Meeting will be held at 9:30 a.m. on September 20, 2004 at the Bellagio Hotel, 3600 Las Vegas Blvd South, Las Vegas, Nevada 89109, U.S.A.

First-Quarter Dividends

The Company also announced that on August 6, 2004 its board of directors declared a dividend of \$0.24 per share for the first quarter. The dividend will be payable on September 6, 2004 to shareholders of record as of August 23, 2004.

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, Kyocera Mita Industrial Co. (H.K.) Limited, Peavey Electronics Corporation and Emerson.

To learn more about Deswell Industries, Inc., please visit the Company's web site at www.deswell.com.

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

	Quarter ended June 30,	
	<u>2004</u>	<u>2003</u>
Net sales	\$ 28,788	\$ 26,075
Cost of sales	<u>20,470</u>	<u>17,664</u>
Gross profit	8,318	8,411
Selling, general and administrative expenses	<u>3,506</u>	<u>3,765</u>
Operating income	4,812	4,646
Interest expense	-	-
Other income, net	<u>30</u>	<u>562</u>
Income before income taxes	4,842	5,208
Income taxes	<u>131</u>	<u>291</u>
Income before minority interests	4,711	4,917
Minority interests	<u>716</u>	<u>563</u>
Net income	<u>\$ 3,995</u>	<u>\$ 4,354</u>
	=====	=====
Basic:		
Net income per share (note 3)	<u>\$ 0.44</u>	<u>\$ 0.48</u>
Weighted average common shares outstanding (in thousands) (note 4)	<u>9,149</u>	<u>9,065</u>
Diluted:		
Net income per share (note 3)	<u>\$ 0.42</u>	<u>\$ 0.47</u>
Weighted average common and potential Common shares (in thousands) (note 4)	<u>9,485</u>	<u>9,274</u>

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DESWELL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEET
(U.S. dollars in thousands)

	June 30, <u>2004</u> (Unaudited)	March 31, <u>2004</u> (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,842	\$ 30,193
Restricted cash	1,390	390
Accounts receivable, net	22,654	18,957
Inventories	21,935	16,174
Prepaid expenses and other current assets	3,721	2,952
Income taxes receivable	<u>127</u>	<u>127</u>
Total current assets	77,669	68,793
Property, plant and equipment - net	46,749	44,261
Investment in associates	2	2
Goodwill	<u>478</u>	<u>478</u>
Total assets	<u>\$ 124,898</u>	<u>\$ 113,534</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,876	\$ 11,168
Customer deposits and accrued expenses	5,614	4,619
Income taxes payable	<u>232</u>	<u>130</u>
Total current liabilities	<u>22,722</u>	<u>15,917</u>
Deferred income tax	<u>15</u>	<u>15</u>
Minority interests	<u>8,436</u>	<u>7,872</u>
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
9,149,085 shares at June 30, 2004 and		
9,149,085 at March 31, 2004 (note 4)	29,980	29,980
Additional paid-in capital	6,970	6,970
Retained earnings	<u>56,775</u>	<u>52,780</u>
Total shareholders' equity	<u>93,725</u>	<u>89,730</u>
Total liabilities and shareholders' equity	<u>\$ 124,898</u>	<u>\$ 113,534</u>

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DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(U.S. dollars in thousands)

	Quarter ended	
	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 3,995	\$ 4,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,121	1,000
Gain on sale of property, plant and equipment	9	74
Minority interests	716	563
Changes in current assets and liabilities:		
Accounts receivable	(3,697)	(2,906)
Marketable securities	-	(4,712)
Inventories	(5,761)	841
Prepaid expenses and other current assets	(769)	(3,618)
Income taxes receivable	-	-
Accounts payable	5,708	1,099
Customer deposits and accrued expenses	995	897
In income taxes payable	<u>102</u>	<u>80</u>
Net cash provided by operating activities	<u>2,419</u>	<u>7,096</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,624)	(2,520)
Proceeds from disposal of property, plant and equipment	<u>6</u>	<u>6</u>
Net cash used in investing activities	<u>(3,618)</u>	<u>(2,514)</u>
Cash flows from financing activities		
Common stock issued	-	819
Dividends paid to minority shareholders of a subsidiary	(126)	-
Contribution from minority shareholders of a subsidiary	(26)	-
Increase in restricted cash	<u>(1,000)</u>	<u>(1)</u>
Net cash (used in)/provided by financing activities	<u>(1,152)</u>	<u>818</u>
Net (decrease)/increase in cash and cash equivalents	(2,351)	5,400
Cash and cash equivalents, at beginning of period	<u>30,193</u>	<u>34,400</u>
Cash and cash equivalents, at end of period	<u>27,842</u>	<u>39,800</u>
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	<u>29</u>	<u>212</u>

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DESWELL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands except per share data)

1. Management's Statement

In the opinion of Management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Deswell Industries, Inc. (the "Company") at June 30, 2004 and March 31, 2004, the results of operations for the quarters ended June 30, 2004 and June 30, 2003, and the cash flows for the quarters ended June 30, 2004 and June 30, 2003. The notes to the Consolidated Financial Statements, which are contained in the Form 20-F Annual Report filed on July 16, 2004 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. Inventories

	June 30, 2004	March 31, 2004
Inventories by major categories :		
Raw materials	\$ 10,650	\$ 7,832
Work in progress	7,047	4,467
Finished goods	<u>4,238</u>	<u>3,875</u>
	<u>\$ 21,935</u>	<u>\$ 16,174</u>
	=====	=====

3. Earnings Per Share

The basic net income per share and diluted net income per share are computed in accordance with the Statement of Financial Accounting Standards No.128 "Earnings Per Share."

The basic net income per share is computed by dividing income available to common holders by the weighted average number of common shares outstanding during the period. Diluted net income per share gives effect to all dilutive potential common shares outstanding during the period. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In computing the dilutive effect of potential common shares, the average stock price for the period is used in determining the number of treasury shares assumed to be purchased with the proceeds from exercise of options.

The net income for the quarters ended June 30, 2004 and 2003 were both from the Company's continuing operations.

4. Stock Split

On June 17, 2002, the Company announced that it is effecting a three-for-two stock split of its outstanding shares to holders of record on July 8, 2002 and payable on July 22, 2002. In conjunction with this stock split and proportionate to it, the Memorandum of Association will be amended effective on July 8, 2002 to increase authorized capital to 30,000,000 common shares. This amendment will also result in the par value of its shares converting to no par value per share.

The common stock and additional paid-in capital are presented with regard to the effects of stock split on July 22, 2002 and change in par value on July 8, 2002.

DESWELL INDUSTRIES, INC.

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Results of Operations

General

The Company's revenues are derived from the manufacture and sale of (i) injection-molded plastic parts and components, (ii) electronic products and subassemblies and (iii) metallic parts and components. The Company carries out all of its manufacturing operations in southern China, where it is able to take advantage of the lower overhead costs and inexpensive labor rates as compared to Hong Kong.

Quarter Ended June 30, 2004 Compared to Quarter Ended June 30, 2003

Net Sales - The Company's net sales for the quarter ended June 30, 2004 were \$28,788,000, an increase of \$2,713,000 or 10.4% as compared to the corresponding period in 2003. The increase was related to the increase in sales of plastic segment of \$742,000 and the increase in sales of electronic and metallic segment of \$1,971,000. This represented an increase of 5.3% and 16.3% respectively, as compared with the respective net sales from these segments in the corresponding period in the prior year.

The increase in net sales in the plastic segment was mainly due to an increase in tooling sales of \$669,000 from existing customers. The increase in net sales in the electronic and metallic segment was mainly due to an increase in orders from new customers of \$2,525,000 offsetting the net decrease in orders from old customers of \$608,000 in the corresponding period in the prior year. The net increase was resulted from a change in customer mix during the period as compared with last year. The increase in sales from new customers included \$2,175,000 in sales of professional audio equipment products.

Gross Profit - The gross profit for the quarter ended June 30, 2004 was \$8,318,000, representing a gross profit margin of 28.9%. This compares with the overall gross profit and gross profit margin of \$8,411,000 or 32.3% for the quarter ended June 30, 2003.

Gross profit in the plastic segment decreased by \$676,000 to \$5,004,000 or 34.0% of net sales, for the quarter ended June 30, 2004 compared to \$5,680,000 or 40.6% of net sales, for the quarter ended June 30, 2003. This was mainly attributed to an average of 50% increase in plastic resin costs since last year, mostly of which we could not pass on to our customers, and the increase in net sales of relatively lower margin plastic injection assembly products over levels during the corresponding period in 2003, thereby offsetting the increase in net sales for the period as described above.

Gross profit in the electronic & metallic segment increased by \$583,000 to \$3,314,000 or 23.6% of net sales, for the quarter ended June 30, 2004 compared to \$2,731,000 or 22.6% of net sales, for the same period last year. This was mainly attributed to the result of focusing on higher margin sales which could be seen in the change of customer mix as described above and the increase in net sales over the corresponding prior period.

Selling, general and administrative expenses – SG&A expenses for the quarter ended June 30, 2004 were \$3,506,000, amounting to 12.2% of total net sales, as compared to \$3,765,000 or 14.4% of total net sales for the quarter ended June 30, 2003. There was an increase in selling, general and administrative expenses of \$166,000 over the corresponding period.

DESWELL INDUSTRIES, INC.

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)**

SG&A expenses in the plastic segment decreased by \$380,000 or 15.1% to \$2,138,000 or 14.5% of net sales, for the quarter ended June 30, 2004 compared to \$2,518,000 or 18.0% of net sales, for the corresponding period in 2003. The decrease was primarily related to the decrease in salary expenses of \$288,000 and a write back of staff welfare provision of \$95,000 during the quarter ended June 30, 2004. The SG&A expenses in the electronic & metallic segment increased by \$121,000 or 9.7% to \$1,368,000 or 9.7% of net sales, for the quarter ended June 30, 2004 compared to \$1,247,000 or 10.3% of net sales for corresponding period in 2003. The increase was primarily related to the increase in salary expenses of \$208,000 offsetting the decrease in depreciation expenses of \$86,000 during the quarter ended June 30, 2004.

Operating income - Operating income was \$4,812,000 for the quarter ended June 30, 2004, an increase of \$166,000 or 3.6% as compared with the corresponding quarter in the prior year.

On a segment basis, the operating income of plastic segment decreased \$296,000 to \$2,866,000 or 19.5% of net sales, in quarter ended June 30, 2004 compared to \$3,162,000 or 22.6% of net sales in corresponding period in 2003. The decrease in operating income was attributable to the decrease in gross profit offsetting the decrease in SG&A expenses as described above.

The operating income of electronic & metallic segment increased \$462,000 to \$1,946,000 or 13.8% of net sales, in the quarter ended June 30, 2004 compared to \$1,484,000 or 12.3% of net sales in the corresponding period in 2003. The increase in operating income was attributable to the increase in gross profit offsetting the increase in SG&A expenses as described above.

Other income - Other income was \$30,000 for the quarter ended June 30, 2004, a decrease of \$532,000 or 94.7% as compared with the corresponding period in the prior year. On a segment basis, other income attributable to the plastic segment decreased \$510,000 to \$2,000 in the quarter ended June 30, 2004. This decrease in other income was primarily attributable to the realized gain on disposal of investment securities of \$520,000 in the quarter ended June 30, 2003 but none in 2004. Other income attributable to the electronic & metallic segment decreased \$22,000, to \$28,000 in the quarter ended June 30, 2004.

Income Taxes - Income taxes expenses for the quarter was \$131,000, a decrease of 160,000 or 55.0% as compared with the corresponding quarter in the prior year. On a segment basis, the income taxes of plastic segment decreased \$187,000 to nil for the quarter ended June 30, 2004 whereas the income tax expenses for the electronic & metallic segment increased \$27,000 to \$131,000 for the quarter ended June 30, 2004, respectively. The decrease in the plastic segment was primarily due to the tax holiday enjoyed in our Dongguan manufacturing plant whereas the increase in the electronic & metallic segment was due to increase in net sales as described above.

Minority Interest - Minority interests represent a 29% minority interest in Integrated International Limited, the holding company holding the capital stock of Deswell's electronic and metallic subsidiaries and a 49% minority interest in the subsidiary conducting marketing for Deswell's plastic and electronic businesses. In January 2003, the Company acquired an additional 20% interest in Integrated, increasing its ownership in that subsidiary from 51% to 71%. Despite the decrease in minority interest in Deswell's electronic & metallic segment, the dollar amount of minority interest increased to \$716,000 for the quarter ended June 30, 2004, from \$563,000 for the corresponding quarter in the prior year, which reflects that both the electronics and metallic subsidiaries and marketing subsidiary generated more net income in the quarter ended June 30, 2004, compared with corresponding quarter in fiscal 2003.

DESWELL INDUSTRIES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net Income - Net income was \$3,995,000 for the quarter ended June 30, 2004, a decrease of \$359,000 or 8.2%, as compared to net income of \$4,354,000 for the quarter ended June 30, 2003, and net income as a percentage of net sales was decreased from 16.7% to 13.9% for the quarter ended June 30, 2004. The decrease in net income was mainly the result of the decrease in other income and income tax expenses offsetting the increase in operating income as described above.

Net income for the plastic segment decreased by 19.2% to \$2,683,000 for the quarter ended June 30, 2004 compared to \$3,322,000 for the corresponding quarter in 2003. The decrease in net income of the plastic segment was mainly the result of the decrease in other income of 510,000 coupled with the decrease in operating profit as described above.

Net income for the electronic & metallic segment increased to \$1,312,000 for the quarter ended June 30, 2004 compared to \$1,032,000 for the corresponding quarter in 2003. The increase in net income of the electronic & metallic segment was mainly the result of the increase in operating profit and the decrease in Deswell's minority interest in Integrated, as described above.

Liquidity and Capital Resources

Traditionally, the Company has relied primarily upon internally generated funds and short-term borrowings (including trade finance facilities) to finance its operations and expansion.

As of June 30, 2004, the Company had a working capital surplus of \$54,947,000 and cash and cash equivalent of \$27,842,000. This compares with a working capital surplus of \$52,876,000 and cash and cash equivalent of \$30,193,000 at March 31, 2004. The decrease in cash and cash equivalent was mainly attributed to net cash generated from its operating activities of \$2,419,000 during the quarter, offset by the capital investment of \$3,624,000 and the increase in restricted cash of \$1,000,000 during the quarter ended June 30, 2004.

The Company has generated sufficient funds from its operating activities to finance its operations and there is little need for external financing other than short-term borrowings that are used to finance accounts receivable and are generally paid with cash generated from operations. The Company has no long-term debt or short-term borrowings at June 30, 2004.

As of June 30, 2004, the Company had in place general banking facilities with three financial institutions aggregating approximately \$6,788,000. Such facilities, which are subject to annual review, include overdrafts, letters of credit, import facilities, trust receipt financing, inward bills financing as well as fixed loans. As of June 30, 2004, the Company had (i) unused credit facilities of \$6,788,000 (ii) cash and cash equivalents of \$27,842,000 and (iii) restricted cash of \$1,390,000, which has been pledged as collateral for those credit facilities.

The Company expects that working capital requirements and capital additions will be funded through a combination of internally generated funds and existing facilities.

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