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DESWELL INDUSTRIES, INC. ANNOUNCES FIRST QUARTER RESULTS

- 4.5% Increase in First Quarter Net Sales -

-Company also Announces First Quarter Dividend of \$0.16 Per Share-

MACAO (August 8, 2005) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2005.

Deswell reported net sales for the first quarter 2005 of \$30.1 million, compared to \$28.8 million for the first quarter 2004, an increase of 4.5%. Operating income totaled \$4.0 million, compared to \$4.8 million for the same quarter in 2004, a decrease of 17.2%. Net income for the quarter decreased 21.1% to \$3.2 million, or \$0.21 per fully diluted share, compared to \$4.0 million, or \$0.28 per fully diluted share, for the comparable period in 2004.

The Company's balance sheet remains strong, with cash and cash equivalents for the quarter totaling \$30.4 million, compared to \$28.1 million on March 31, 2005. Working capital totaled \$60.2 million as of June 30, 2005, up from \$57.6 million as of March 31, 2005. The Company has no long-term or short-term borrowings.

Mr. Richard Lau, chairman and chief executive officer, commented, "We are very pleased with the electronics and metallic division's 29.7% revenue growth in the first quarter. This growth was primarily driven by our continued success manufacturing audio equipment. The decrease in revenue in the plastic division can be primarily attributed to three reasons: First, our business with Vtech decreased by approximately two-thirds as we chose not to take on significantly lower margin business. Second, technical issues involved in another customer's models delayed the progress of new model production, resulting in an 80% drop in purchase

orders from this customer. Finally, we are still suffering from the increased cost of resin due to high oil prices. Over 50% of this cost could not be passed along to our customers.”

Mr. Lau continued, “While the plastic division faced a tough start this year with a 19.6% decrease in revenue, we expect this situation to improve in the third quarter. A substantial amount of molds from new customers and large molds from existing customers will be completed in September and production should commence in October. These new molds are for such items as color printers and vacuum cleaners for two Japanese brand names.”

Annual General Meeting

The Company will hold its 2005 Annual General Meeting at 9:30 a.m. on September 19, 2005 at the Wynn Las Vegas Resort, 3131 Las Vegas Blvd South, Las Vegas, Nevada 89109, U.S.A.

First-Quarter Dividends

The Company also announced that on August 8, 2005 its board of directors declared a dividend of \$0.16 per share for the fiscal first quarter 2005. The dividend will be payable on September 5, 2005 to shareholders of record as of August 22, 2005.

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.

This press release may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this press release are based on current expectations and are subject to change. Actual results may differ materially from the forward-looking statements. Deswell does not undertake to update any such forward-looking statements or to publicly announce developments or events relating to the matters described herein. Uncertainties and risks are described in Deswell's most recently filed SEC documents, such as its most recent form 20-F.

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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>2005</u>	<u>2004</u>
Net sales	\$ 30,075	\$ 28,788
Cost of sales	<u>22,435</u>	<u>20,470</u>
Gross profit	7,640	8,318
Selling, general and administrative expenses	<u>3,654</u>	<u>3,506</u>
Operating income	3,986	4,812
Interest expense	-	-
Other income, net	<u>(360)</u>	<u>30</u>
Income before income taxes	3,626	4,842
Income taxes	<u>25</u>	<u>131</u>
Income before minority interests	3,601	4,711
Minority interests	<u>450</u>	<u>716</u>
Net income	<u>\$ 3,151</u>	<u>\$ 3,995</u>
	=====	=====
Basic:		
Net income per share (note 3)	<u>\$ 0.21</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding (in thousands) (note 4)	<u>14,865</u>	<u>13,724</u>
Diluted:		
Net income per share (note 3)	<u>\$ 0.21</u>	<u>\$ 0.28</u>
Weighted average common and potential Common shares (in thousands) (note 4)	<u>14,929</u>	<u>14,227</u>

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

	June 30, <u>2005</u> (Unaudited)	March 31, <u>2005</u> (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,398	\$ 28,073
Restricted cash	776	1,040
Marketable securities	178	244
Accounts receivable, net	24,469	25,091
Inventories	19,634	21,136
Prepaid expenses and other current assets	5,072	4,761
Income taxes receivable	<u>173</u>	<u>20</u>
Total current assets	80,700	80,365
Property, plant and equipment - net	56,583	56,133
Goodwill	<u>710</u>	<u>478</u>
Total assets	<u>\$ 137,993</u>	<u>\$ 139,976</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,849	\$ 16,449
Customer deposits and accrued expenses	6,203	6,015
Income taxes payable	<u>403</u>	<u>325</u>
Total current liabilities	<u>20,455</u>	<u>22,789</u>
Deferred income tax	<u>-</u>	<u>-</u>
Minority interests	<u>7,645</u>	<u>9,420</u>
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
14,908,730 shares at June 30, 2005 and		
14,778,730 at March 31, 2005 (note 4)		
	41,043	39,068
Additional paid-in capital	6,970	6,970
Retained earnings	<u>61,880</u>	<u>58,729</u>
Total shareholders' equity	<u>109,893</u>	<u>104,767</u>
Total liabilities and shareholders' equity	<u>\$ 137,993</u>	<u>\$ 136,976</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>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 3,151	\$ 3,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,581	1,121
Gain on sale of property, plant and equipment	4	9
Minority interests	425	716
Changes in current assets and liabilities:		
Accounts receivable	622	(3,697)
Marketable securities	66	-
Inventories	1,502	(5,761)
Prepaid expenses and other current assets	(311)	(769)
Income taxes receivable	(153)	-
Accounts payable	(2,600)	5,708
Customer deposits and accrued expenses	188	995
In income taxes payable	78	102
Net cash provided by operating activities	<u>4,553</u>	<u>2,419</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,033)	(3,624)
Proceeds from disposal of property, plant and equipment	-	6
Net cash used in investing activities	<u>(2,033)</u>	<u>(3,618)</u>
Cash flows from financing activities		
Common stock issued	141	-
Dividends paid to minority shareholders of a subsidiary	(430)	(126)
Distribution to minority shareholders of a subsidiary	(170)	(26)
Decrease/(increase) in restricted cash	264	(1,000)
Net cash used in financing activities	<u>(195)</u>	<u>(1,152)</u>
Net (decrease)/increase in cash and cash equivalents	2,325	(2,351)
Cash and cash equivalents, at beginning of period	<u>28,073</u>	<u>30,193</u>
Cash and cash equivalents, at end of period	<u>30,398</u>	<u>27,942</u>
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	<u>100</u>	<u>29</u>
Supplementary disclosures of significant non-cash transactions:		
Issuance of common stock in connection of acquisition of Additional 5% shareholdings of a subsidiary	1,834	-
Excess of acquisition cost over the fair value of acquired net assets of additional 5% shareholdings of a subsidiary	<u>(234)</u>	<u>-</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, 2005 and March 31, 2005, the results of operations for the quarters ended June 30, 2005 and June 30, 2004, and the cash flows for the quarters ended June 30, 2005 and June 30, 2004. The notes to the Consolidated Financial Statements, which are contained in the Form 20-F Annual Report filed on July 8, 2005 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. Inventories

	June 30, 2005	March 31, 2005
Inventories by major categories :		
Raw materials	\$ 9,305	\$ 8,329
Work in progress	5,572	8,088
Finished goods	<u>4,757</u>	<u>4,719</u>
	<u>\$ 19,634</u>	<u>\$ 21,136</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, 2005 and 2004 were both from the Company's continuing operations.

4. Stock Split

On February 22, 2005, the Company announced that it is effecting a three-for-two stock split of its outstanding shares to holders of record on March 15, 2005 and payable on March 29, 2005.

The common stock, additional paid-in capital and earnings per shares are presented with regard to the effects of stock split on March 15, 2005.

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, 2005 Compared to Quarter Ended June 30, 2004

Net Sales - The Company's net sales for the quarter ended June 30, 2005 were \$30,075,000, an increase of \$1,287,000 or 4.5% as compared to the corresponding period in 2004. The increase was related to the increase in sales of electronic and metallic segment of \$4,177,000 offsetting the decrease in sales of injection-molded plastic products of \$2,890,000. This represented an increase of 29.7% and a decrease of 19.6% respectively, as compared with the net sales in the corresponding period in the prior year.

The increase in net sales in the electronic and metallic segment was mainly due to an increase in orders from new customers of \$1,281,000 and from old customers of \$2,896,000 in the corresponding period in the prior year. The increase in sales from new customers was mainly for sales of professional audio equipment products. The revenue decrease at our plastic segment was mainly a result of the decrease in telecommunication product orders from a major customer of \$2,860,000 as we chose not to take on significantly lower margin business; and the decrease in orders from existing customers of \$1,233,000 which was partly due to a customer delaying the progress of new model productions as a result of some technical issues in old models awaiting modification. These together offset the increase in new mold orders from both new and existing customers of \$1,203,000.

Gross Profit - The gross profit for the quarter ended June 30, 2005 was \$7,640,000, representing a gross profit margin of 25.4%. This compares with the overall gross profit and gross profit margin of \$8,318,000 or 28.9% for the quarter ended June 30, 2004.

Gross profit in the plastic segment decreased by \$1,095,000 to \$3,909,000 or 33.0% of net sales, for the quarter ended June 30, 2005 compared to \$5,004,000 or 34.0% of net sales, for the quarter ended June 30, 2004. This was mainly attributed to an average of 20% to 30% increase in plastic resin costs since last year, more than 50% of which we could not pass on to our customers.

Gross profit in the electronic & metallic segment increased by \$417,000 to \$3,731,000 or 20.4% of net sales, for the quarter ended June 30, 2005 compared to \$3,314,000 or 23.6% of net sales, for the same period last year. This was mainly attributed to the increase in metallic material cost of an average of 30% to 40% when compared with last year, which could not be reflected in the selling price to customers and the strategy of offering volume pricing for large orders obtained by the electronics division in view of the keen competition in the market.

Selling, general and administrative expenses – SG&A expenses for the quarter ended June 30, 2005 were \$3,654,000, amounting to 12.1% of total net sales, as compared to \$3,506,000 or 12.2% of total net sales for the quarter ended June 30, 2004. There was an increase in selling, general and administrative expenses of \$148,000 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 \$82,000 or 3.8% to \$2,056,000 or 17.4% of net sales, for the quarter ended June 30, 2005 compared to \$2,138,000 or 14.5% of net sales, for the corresponding period in 2004. The decrease was primarily related to the decrease in selling expenses as a result of decrease in sales activities during the quarter ended June 30, 2005. The SG&A expenses in the electronic & metallic segment increased by \$230,000 or 16.8% to \$1,598,000 or 8.8% of net sales, for the quarter ended June 30, 2005 compared to \$1,368,000 or 9.7% of net sales for corresponding period in 2004. The increase was primarily related to the increase in salary expenses of \$146,000 as a result of expanding our marketing force and increase in selling expenses of \$80,000 during the quarter ended June 30, 2005.

Operating income - Operating income was \$3,986,000 for the quarter ended June 30, 2005, a decrease of \$826,000 or 17.2% as compared with the corresponding quarter in the prior year.

On a segment basis, the operating income of plastic segment decreased \$1,013,000 to \$1,853,000 or 15.7% of net sales, in quarter ended June 30, 2005 compared to \$2,866,000 or 19.5% of net sales in corresponding period in 2004. 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 \$187,000 to \$2,133,000 or 11.7% of net sales, in the quarter ended June 30, 2005 compared to \$1,946,000 or 13.8% of net sales in the corresponding period in 2004. 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 decreased by \$390,000 from \$30,000 in the quarter ended June 30, 2004. On a segment basis, other income attributable to the plastic segment decreased \$161,000 to from \$2,000 in the quarter ended June 30, 2004. This decrease in other income was primarily attributable to the increase in exchange loss of \$214,000 offsetting the increase in interest income of \$50,000 in the quarter ended June 30, 2005. Other income attributable to the electronic & metallic segment decreased \$229,000, from \$28,000 in the quarter ended June 30, 2004. This decrease in other income was mainly attributable to the increase in exchange loss of \$145,000, the unrealized loss on securities investment of \$65,000 and a bad debt written off of \$19,000 in the quarter ended June 30, 2005 but none in 2004.

Income Taxes – Income taxes expenses for the quarter was \$25,000, a decrease of \$106,000 as compared with the corresponding quarter in the prior year. On a segment basis, the income taxes of plastic segment decreased \$143,000 from nil in the quarter ended June 30, 2004 whereas the income tax expenses for the electronic & metallic segment increased \$37,000 to \$168,000 for the quarter ended June 30, 2005, respectively. The decrease in the plastic segment was primarily due to a tax refund \$173,000 approved on our reinvestment of retained earnings in our Dongguan manufacturing plant offsetting a tax provision of \$30,000 whereas the increase in the electronic & metallic segment was due to increase in net sales as described above.

Minority Interest - Minority interests represent a 24% minority interest in Integrated International Limited, the holding company holding the capital stock of Deswell's electronic and metallic subsidiaries. In April 2005, the Company acquired an additional 5% interest in Integrated, increasing its ownership in that subsidiary from 71% to 76%. In June 2005, the Company liquidated the marketing subsidiary which was previously with a 49% minority interest. As a result of the decrease in minority interest in Deswell's electronic & metallic segment and the marketing subsidiary, the dollar amount of minority interest decreased to \$450,000 for the quarter ended June 30, 2005, from \$716,000 for the corresponding quarter in the prior year. This represented a decrease in minority interest of \$81,000 and the decrease in net income in the electronics and metallic subsidiaries, together with the decrease in minority interest from \$185,000 in the quarter ended June 30, 2004 to nil in the marketing subsidiary in the quarter ended June 30, 2005.

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DESWELL INDUSTRIES, INC.

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

Net Income - Net income was \$3,151,000 for the quarter ended June 30, 2005, a decrease of \$844,000 or 21.1%, as compared to net income of \$3,995,000 for the quarter ended June 30, 2004, and net income as a percentage of net sales was decreased from 13.9% to 10.5% for the quarter ended June 30, 2005. The decrease in net income was mainly the result of the decrease in operating income and other income offsetting the decrease in income tax as described above.

Net income for the plastic segment decreased by 31.5% to \$1,837,000 for the quarter ended June 30, 2005 compared to \$2,683,000 for the corresponding quarter in 2004. The decrease in net income of the plastic segment was mainly the result of the decrease in operating income offsetting the decrease in income tax as described above.

Net income for the electronic & metallic segment increased to \$1,314,000 for the quarter ended June 30, 2005 compared to \$1,312,000 for the corresponding quarter in 2004. The increase in net income of the electronic & metallic segment was mainly the result of the increase in operating profit offsetting the decrease in other income 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, 2005, the Company had a working capital surplus of \$60,245,000 and cash and cash equivalent of \$30,398,000. This compares with a working capital surplus of \$57,576,000 and cash and cash equivalent of \$28,073,000 at March 31, 2005. The increase in cash and cash equivalent of \$2,325,000 was mainly attributed to net cash generated from its operating activities of \$4,553,000 during the quarter and the decrease in restricted cash of \$264,000, offset by the capital investment of \$2,033,000, dividend paid to minority shareholders of \$430,000 and distribution to minority shareholders upon liquidation of marketing subsidiary of \$170,000 during the quarter ended June 30, 2005.

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, 2005.

As of June 30, 2005, the Company had in place general banking facilities with two financial institutions aggregating approximately \$2,581,000. 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, 2005, the Company had (i) unused credit facilities of \$2,581,000 (ii) cash and cash equivalents of \$30,398,000 and (iii) restricted cash of \$776,000, 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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