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DESWELL INDUSTRIES, INC. ANNOUNCES THIRD QUARTER RESULTS

– Net Sales Up 20% and Net Income Up 22% –

– Earnings Per Share of \$0.67 –

HONG KONG (February 21, 2001) - Deswell Industries, Inc. (Nasdaq Symbol: DSWL) today announced its results for the third quarter and nine months ended December 31, 2000.

Net sales for the quarter were \$21.4 million, an increase of 20% compared to sales of \$17.8 million in the third quarter ended December 31, 1999. Operating income increased 4% to \$3.3 million, compared to \$3.2 million in the previous year, and net income increased 22% to \$3.6 million, compared to \$2.9 million in the previous year. Basic earnings per share and diluted earnings per share increased 22% and 21% to \$0.67 and \$0.66 respectively (based on 5,358,000 and 5,454,000 weighted average shares outstanding, respectively), compared to \$0.55 and \$0.54 respectively (based on 5,348,000 and 5,415,000 weighted average shares outstanding, respectively), in the third quarter ended December 31, 1999.

Net sales for the nine months ended December 31, 2000 were \$64.0 million, an increase of 39% compared to sales of \$46.0 million for the corresponding period in 1999. Operating income increased 31% to \$11.2 million, compared to \$8.6 million in the previous year, and net income increased 23% to \$10.4 million, compared to \$8.4 million in the previous year. Basic earnings per share and diluted earnings per share increased 25% and 24% to \$1.94 and \$1.92 respectively (based on 5,352,000 and 5,407,000 weighted average shares outstanding, respectively), compared to \$1.55 and \$1.54 respectively (based on 5,433,000 and 5,451,000 weighted average shares outstanding, respectively), for the nine months ended December 31, 1999.

The Company reported a continued strong financial position with book value per share of \$10.97 and cash per share of \$4.51. The Company has no short-term or long-term debt.

Mr. Richard Lau, chief executive officer, commented, "We are pleased with our continued growth in revenue in the third quarter ended December 31, 2000. Jetcrown, our plastics division, recorded a 21% and 30% increase in net revenue for the quarter and for the nine months respectively over the prior year. Our plastic injection plant in Dongguan began to provide the much needed added capacity for the business we anticipate from existing customers. Our aggressive build-out of the new Dongguan facility impacted our operating margin during the quarter as the factory started to come on-line, but we anticipate operating margins to improve as volume increases. Furthermore, we are very excited about the recently leased 1.3 million square feet of land in Dongguan, and we are currently preparing designs and selecting contractors which we expect will take three to five months."

"Kwanasia and Kwanta, our electronics and metallics divisions, recorded a 18% and 56% increase in net revenue for the quarter and for the nine months respectively over the prior year and we expect that all divisions should perform well for the rest of the year. Our focus in coming years is on building out our capacity for our existing and new customers while focusing on cost controls to maximize profitability for shareholders," concluded Mr. Lau.

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 pin-through hole ("PHT") interconnection technologies; and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals. The Company's customers include Kyocera Mita Industrial Co. (H.K.) Limited, Epson Precision (H.K.) Ltd., Nantai Electronics (Shenzhen) Co. Ltd., Inter-Tel Incorporated, Vtech Communications Ltd., Peavey Electronics Corporation and Emerson.

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

Tables follow

DESWELL INDUSTRIES, INC.

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

	Quarter ended December 31,		Nine months ended December 31,	
	<u>2000</u> (Unaudited)	<u>1999</u>	<u>2000</u> (Unaudited)	<u>1999</u>
Net sales	\$ 21,376	\$ 17,809	\$ 63,971	\$ 46,000
Cost of sales	13,757	11,554	40,942	28,426
Gross profit	7,619	6,255	23,029	17,574
Selling, general and administrative expenses	4,282	3,054	11,801	8,998
Operating income	3,337	3,201	11,228	8,576
Interest expense	-	-	(5)	-
Other income, net	436	281	610	926
Income before income taxes	3,773	3,482	11,833	9,502
Income taxes	97	339	560	698
Income before minority interests	3,676	3,143	11,273	8,804
Minority interests	87	199	916	411
Net income	\$ 3,589	\$ 2,944	\$ 10,357	\$ 8,393
	=====	=====	=====	=====
Basic earnings per share (note 3)	\$ 0.67	\$ 0.55	\$ 1.94	\$ 1.55
	=====	=====	=====	=====
Weighted average number of shares outstanding (in thousands)	5,358	5,348	5,352	5,433
	=====	=====	=====	=====
Diluted earnings per share (note 3)	\$ 0.66	\$ 0.54	\$ 1.92	\$ 1.54
	=====	=====	=====	=====
Diluted weighted average number of shares outstanding (in thousands)	5,454	5,415	5,407	5,451
	=====	=====	=====	=====

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

	December 31, <u>2000</u> (Unaudited)	March 31, <u>2000</u>
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 21,905	\$ 27,156
Restricted cash	2,244	2,129
Marketable securities	-	1,308
Accounts receivable, net	17,994	10,607
Inventories	12,247	10,932
Prepaid expenses and other current assets	4,321	2,295
Income taxes receivable	-	164
Total current assets	<u>58,711</u>	<u>54,591</u>
Property, plant and equipment – net	21,275	16,701
Goodwill	522	549
Total assets	<u><u>\$ 80,508</u></u>	<u><u>\$ 71,841</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,834	\$ 5,401
Customer deposits and accrued expenses	5,640	4,362
Income taxes payable	415	101
Total current liabilities	<u>11,889</u>	<u>9,864</u>
Minority interests	<u>9,835</u>	<u>8,931</u>
Deferred income tax	<u>15</u>	<u>15</u>
Shareholders' equity		
Common stock		
- authorized 20,000,000 shares; issued and outstanding		
5,357,931 shares at December 31, 2000 and		
5,347,931 shares at March 31, 2000	54	53
Additional paid-in capital	24,227	24,100
Retained earnings	34,488	28,878
Total shareholders' equity	<u>58,769</u>	<u>53,031</u>
Total liabilities and shareholders' equity	<u><u>\$ 80,508</u></u>	<u><u>\$ 71,841</u></u>

DESWELL INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(U.S. dollars in thousands)

	Nine months ended December 31,	
	<u>2000</u>	<u>1999</u>
Cash flows from operating activities :		
Net income	\$ 10,357	\$ 8,393
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	3,707	3,541
Loss on disposal of property, plant and equipment	15	19
Minority interests	916	437
Changes in current assets and liabilities :		
Accounts receivable	(7,401)	(3,553)
Marketable securities	1,306	134
Inventories	(1,329)	(3,044)
Prepaid expenses and other current assets	(2,029)	2,413
Income taxes receivable	164	233
Accounts payable	440	2,069
Customer deposits and accrued expenses	1,284	(277)
Income taxes payable	314	314
Net cash provided by operating activities	<u>7,744</u>	<u>10,679</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,297)	(4,998)
Proceeds from disposal of property, plant and equipment	6	173
Acquisition, excluding cash acquired	-	(32)
Increase in long term investment	-	(1,072)
(Increase)/decrease in restricted cash	(118)	444
Net cash used in investing activities	<u>(8,409)</u>	<u>(5,485)</u>
Cash flows from financing activities		
Common stock repurchased & cancelled	-	(1,257)
Common stock issued	159	-
Exchange difference on translation	(35)	-
Dividends paid	(4,710)	(4,777)
Net cash used in financing activities	<u>(4,586)</u>	<u>(6,034)</u>
Net decrease in cash and cash equivalents	(5,251)	(840)
Cash and cash equivalents, at beginning of period	27,156	27,556
Cash and cash equivalents, at end of period	<u><u>21,905</u></u>	<u><u>26,716</u></u>

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Supplementary disclosures of cashflow information:

Cash paid during the period for:

Interest	5	-
Income taxes	404	154
	<u>409</u>	<u>154</u>

Acquisition of subsidiary, excluding cash acquired:

Goodwill	-	224
Minority Interests	-	(192)
Cash paid, net of cash acquired	-	32
	<u>-</u>	<u>32</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 December 31, 2000 and March 31, 2000, the results of operations for the quarters and nine months ended December 31, 2000 and December 31, 1999, and the cash flows for the nine months ended December 31, 2000 and December 31, 1999. The notes to the Consolidated Financial Statements that are contained in the Form 20-F Annual Report filed on July 6, 2000 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. Inventories

	December 31, <u>2000</u>	March 31, <u>2000</u>
Inventories by major categories:		
Raw materials	\$ 7,162	\$ 6,924
Work in progress	2,626	1,553
Finished goods	<u>2,459</u>	<u>2,455</u>
	\$ 12,247	\$ 10,932
	=====	=====

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 and nine months ended December 31, 2000 and 1999 were both from the Company's continuing operations.

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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 December 31, 2000 Compared to Quarter Ended December 31, 1999

The Company's net sales for the quarter ended December 31, 2000 were \$21,376,000, an increase of \$3,567,000, or 20.0%, as compared to the corresponding period in 1999. The increase in sales was mainly related to increases in sales of injection-molded plastic products and electronic and metallic products of \$2,349,000 and \$1,218,000, respectively. This represented increases of 21.2% and 18.1%, respectively, as compared with the net sales in the corresponding period in the prior year.

The increase in net sales in both operations was attributed to the increase in orders from the existing strong customer base together with the new orders from new customers.

The gross profit for the quarter ended December 31, 2000 was \$7,619,000, representing a gross profit margin of 35.6%. This compares with the overall gross profit and gross profit margin of \$6,255,000 or 35.1% respectively for the quarter ended December 31, 1999.

Selling, general and administrative expenses for the quarter ended December 31, 2000 were \$4,282,000, or 20.0% of total net sales, compared with \$3,054,000 or 17.1% of total net sales for the quarter ended December 31, 1999. The increase in selling, general and administrative expenses of \$1,228,000 over the corresponding period was mainly attributed to the increase in general and administrative expenses resulted from the commencement of operation of our Dongguan plant since July 2000.

As a result of the increase in sales revenue, operating income was \$3,337,000 for the quarter ended December 31, 2000; an increase of \$136,000 or 4.2% as compared with the corresponding quarter in the prior year.

Minority interest represents the 49% minority interest in both the electronics and metallics subsidiaries. The decrease in minority interest to \$87,000 for the quarter ended December 31, 2000 from \$199,000 for the quarter ended December 31, 2000 reflects the decreased profits generated by the electronics and metallics business.

As a result of the above factors, net income was \$3,589,000 for the quarter ended December 31, 2000, an increase of \$645,000 or 21.9%, as compared to the quarter ended December 31, 1999 and net income as a percentage of net sales increased slightly to 16.8% from 16.5%.

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DESWELL INDUSTRIES, INC.

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

Nine Months Ended December 31, 2000 Compared to Nine Months Ended December 31, 1999

The Company's net sales for the nine months ended December 31, 2000 were \$63,971,000, an increase of \$17,971,000 or 39.1% as compared to corresponding period in 1999. The increase in sales was mainly related to increases in sales of injection-molded plastic products and electronic and metallic products of \$8,719,000 and \$9,252,000, respectively. This represented increases of 29.6% and 56.0%, respectively, as compared with the net sales in the corresponding period in the prior year.

The increase in net sales in both operations was attributed to the substantial increase in orders from existing strong customer base together with the new orders from new customers.

The gross profit for the nine months ended December 31, 2000 was \$23,029,000, representing a gross profit margin of 36.0%. This compares with the overall gross profit and gross profit margin of \$17,574,000 or 38.2% for the nine months ended December 31, 1999. The decrease in the overall gross profit margin of 2.2% was mainly attributed to the combined effect of the increase in resin costs and electronics component costs in the plastic and electronic division respectively.

Selling, general and administrative expenses for the nine months ended December 31, 2000 were \$11,801,000, amounting to 18.4% of total net sales, as compared to \$8,998,000 or 19.6% of total net sales for the nine months ended December 31, 1999. The increase in selling, general and administrative expenses of \$2,803,000 over the corresponding period was mainly attributed to the increase in general and administrative expenses resulted from the commencement of operation of our Dongguan plant since July 2000.

As a result, operating income was \$11,228,000 for the nine months ended December 31, 2000, an increase of \$2,652,000 or 30.9% as compared with the corresponding period in the prior year.

Minority interest represents the 49% minority interest in both the electronics and metallic subsidiaries. The increase in minority interest to \$916,000 for the nine months ended December 31, 2000 from \$411,000 for the nine months ended December 31, 1999 reflects the increased profits generated by the electronic and metallic business.

As a result of the above factors, net income was \$10,357,000 for the nine months ended December 31, 2000, an increase of \$1,964,000 or 23.4%, as compared to the nine months ended December 31, 1999 and net income as a percentage of net sales slightly decreased to 16.2% from 18.2%.

DESWELL INDUSTRIES, INC.

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

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 December 31, 2000, the Company had a working capital surplus of \$46,822,000. This compares with a working capital surplus of \$44,727,000 at March 31, 2000. The increase in working capital was mainly attributed to the increase in net sales netting off a dividend distribution of \$4,710 and the capital investment of \$8,297,000 during the nine months ended December 31, 2000.

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 which are used to finance accounts receivable and are generally paid from cash generated from operations. The Company has no outstanding short-term borrowings and long-term debt at December 31, 2000.

As of December 31, 2000, the Company had in place general banking facilities with two financial institutions aggregating approximately \$15,698,000. 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 December 31, 2000, the Company had (i) unused credit facilities of \$15,698,000 (ii) cash and cash equivalents of \$21,905,000 and (iii) restricted cash of \$2,244,000, which has been pledged as collateral for those credit facilities. The restricted cash of \$2,151,000 and leasehold land and buildings of \$1,385,000 have been pledged as collateral for those credit facilities. The Company also had \$93,000 pledged as deposit for customs duty in Dongguan, China.

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