

Deswell Announces Fourth Quarter Results

- Company Announces Fourth Quarter Dividend of \$0.05 Per Share -

FOR IMMEDIATE RELEASE

MACAO (June 29, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) announced its financial results for the fiscal fourth quarter ended March 31, 2011.

Net sales for the fourth quarter ended March 31, 2011 were \$16.0 million, a decrease of 4.1% compared to net sales of \$16.7 million for the same quarter ended March 31, 2010. Net sales decreased by 19.0% to \$7.4 million in the plastic segment and increased by 13.9% to \$8.6 million in the Company's electronic and metallic segment. The operating loss in the fourth quarter of fiscal 2011 was \$0.4 million, compared to operating loss of \$1.2 million for the same quarter of fiscal 2010.

Total gross margin increased to 15.3% in the fourth quarter ended March 31, 2011 compared to 12.6% in the same quarter last year. Gross profit margin in the plastic segment decreased to 19.5% of net sales for the fourth quarter of fiscal 2011 compared to 21.9% of net sales for the same quarter of last fiscal year. The decreased gross margin in the plastic segment was mainly due to an increase in labor costs resulting from a raise in the minimum wage rate offsetting decreases in raw material cost and factory overhead as a percentage of sales during the quarter. Gross profit margin in the electronic and metallic segment increased to 11.6% of net sales for the fourth quarter ended March 31, 2011, compared to 1.2% of net sales for the year-ago quarter. The increase in gross margin in the electronic and metallic segment was mainly attributable to a decrease in raw materials cost resulting from lower stock provisions made, and decreased labor costs driven by lower headcount, offsetting the costs related to the raise in minimum wage rate, as compared to the prior year quarter.

The Company reported a net loss of \$0.6 million for the fourth quarter ended March 31, 2011 compared to net loss of \$0.9 million for the quarter ended March 31, 2010. Basic and diluted net loss per share was \$0.04, (based on 16,195,000 and 16,204,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of \$0.06, (based on 16,190,000 and 16,203,000 weighted average shares outstanding, respectively) for the same quarter ended March 31, 2010.

Net sales for the year ended March 31, 2011 were \$84.0 million, an increase of 3.0%, compared to sales of \$81.6 million for the corresponding period in fiscal 2010. Operating loss for the year ended March 31, 2011 was \$8.8 million, compared to operating income of \$1.7 million for the fiscal year of 2010. The Company reported a net loss of \$8.1 million in the fiscal year 2011, compared to net income of \$1.5 million for the year ended March 31, 2010. Deswell reported basic and diluted net loss per share of \$0.50 for the fiscal year of 2011, (based on 16,193,000 and 16,203,000 weighted average share outstanding, respectively), compared to income per share of \$0.09, (based on 15,965,000 and 16,039,000 weighted average shares outstanding, respectively), for the prior fiscal period.

The Company's financial position remained strong at the end of the fourth quarter of fiscal 2011, with \$35.6 million in cash and cash equivalents at March 31, 2011 compared to \$35.1 million at March 31, 2010. Working capital totaled \$59.7 million as of March 31, 2011 versus \$59.8 million as of March 31, 2010. Furthermore, the Company has no long-term or short-term borrowings at March 31, 2011.

Mr. Franki Tse, chief executive officer, commented, "We are very pleased with the improved sales and margins at our electronic and metal segment. Our plastic segment experienced lower sales and margins largely due to its higher sensitivity to labor rates and RMB appreciation. Importantly, we have negotiated and confirmed price increases with some customers and believe this will positively effect to our gross margin. Increasing manufacturing cost and RMB appreciation, coupled with an uncertain world economic situation are still the main challenges we face. That being said, we are very focused on driving our sales performance and maximizing our margins for shareholders. As can be seen in our performance, we have taken great strides in reducing our overhead and expenses. I am encouraged by our progress and confident that our performance will be further improving in the coming 2011/2012 fiscal year. Since the company's public listing in 1995, we have maintained a very sound financial condition -- a key competitive advantage for us -- with a healthy cash position and no short or long term debt."

Fourth Quarter Dividends

The Company also announced that on June 28, 2011 its board of directors declared a dividend of \$0.05 per share for the fiscal fourth quarter ended March 31, 2011. The dividend will be payable on July 28, 2011 to shareholders of record as of July 8, 2011.

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.

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

	3/31/2011 (Unaudited)	3/31/2010 (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 35,635	\$ 35,120
Marketable securities	1,045	5,673
Accounts receivable, net	17,210	14,399
Inventories (note 2)	19,517	15,808
Prepaid expenses and other current assets	2,154	1,844
Total current assets	<u>75,561</u>	<u>72,844</u>
Property, plant and equipment - net	51,052	60,705
Deferred income tax assets	154	70
Goodwill	392	392
Total assets	<u>\$ 127,159</u>	<u>\$ 134,011</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,864	\$ 7,298
Accrued payroll and employee benefits	3,971	2,570
Customer deposits	1,965	883
Other accrued liabilities	1,453	1,905
Income taxes payable	596	-
Deferred income tax liabilities	213	340
Dividend payable	810	-
Total current liabilities	<u>15,872</u>	<u>12,996</u>
Shareholders' equity		
Common shares nil par value		
- authorized 30,000,000 shares; issued and outstanding		
16,194,810 shares at March 31, 2011 and		
16,191,810 shares at March 31, 2010, respectively	50,809	50,803
Additional paid-in capital	7,719	7,719
Accumulated other comprehensive income	5,316	5,316
Retained earnings	47,443	57,177
Total shareholders' equity	<u>111,287</u>	<u>121,015</u>
Total liabilities and shareholders' equity	<u>\$ 127,159</u>	<u>\$ 134,011</u>

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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(Unaudited)		(Unaudited)	(Audited)
Net sales	\$ 15,978	\$ 16,667	\$ 84,022	\$ 81,614
Cost of sales	<u>13,538</u>	<u>14,570</u>	<u>74,474</u>	<u>68,958</u>
Gross profit	2,440	2,097	9,548	12,656
Selling, general and administrative expenses	2,788	3,826	13,941	15,505
Other income (expenses), net	<u>(57)</u>	<u>511</u>	<u>(4,435)</u>	<u>4,594</u>
Operating income (loss) (note 3)	(405)	(1,218)	(8,828)	1,745
Interest expense	-	-	-	-
Non-operating income, net	<u>29</u>	<u>69</u>	<u>1,096</u>	<u>444</u>
Income (loss) before income taxes	(376)	(1,149)	(7,732)	2,189
Income taxes	<u>277</u>	<u>(214)</u>	<u>382</u>	<u>690</u>
Net income (loss)	<u>\$ (653)</u>	<u>\$ (935)</u>	<u>\$ (8,114)</u>	<u>\$ 1,499</u>
Net income per share (note 4)				
Basic:				
Net income (loss) per share	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.50)</u>	<u>\$ 0.09</u>
Weighted average number of shares outstanding (in thousands)	<u>16,195</u>	<u>16,190</u>	<u>16,193</u>	<u>15,965</u>
Diluted:				
Net income (loss) per share	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.50)</u>	<u>\$ 0.09</u>
Weighted average number of shares outstanding (in thousands)	<u>16,204</u>	<u>16,203</u>	<u>16,203</u>	<u>16,039</u>