O$_2$MICRO INTERNATIONAL LIMITED

凹凸科技有限公司 *

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 457)

2007 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The Board of Directors (the "Board") is pleased to announce the audited consolidated results of our Company and its subsidiaries (the "Group") for the year ended December 31, 2007.

Years ended December, 2006 and 2007

The following table summarizes historical results of operations as a percentage of net sales for the periods indicated:

	Years ended December 31,	
	2006	**2007**
	%	%
Consolidated Statement of Income Data:		
Net sales	100.0	100.0
Cost of sales	45.4	42.9
Gross profit	54.6	57.1
Operating expenses:		
Research and development	25.4	20.9
Selling, general and administrative	23.4	21.0
Patent related litigation	8.8	6.6
Litigation income	—	(5.7)
Stock Exchange of Hong Kong listing expenses	0.6	—
Total operating expenses	58.2	42.8
Loss (income) from operations	(3.6)	14.3
Non-operating income — net	2.2	1.7
Income tax (benefit) expenses	(2.0)	0.9
Net income	0.6	15.1

The following table sets forth the breakdown of our net sales by product category for the years indicated:

	Years Ended December 31	
	2006	**2007**
	(US$000)	**(US$000)**
Integrated Circuits:		
Analog	98,612	126,436
Mixed-signal	8,554	13,280
Digital	17,097	23,856
Systems Security Solutions	646	1,967
Licensed Intellectual Property	6	1
Total	124,915	165,540

AUDITED ANNUAL RESULTS

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousand U.S. Dollars, Except Per Share Amounts)

	December 31	
ASSETS	**2006**	**2007**
CURRENT ASSETS		
Cash and cash equivalents	$ 45,438	$ 52,597
Restricted cash	8,342	6,830
Short-term investments	19,697	28,650
Accounts receivable, net	18,987	24,600
Inventories	14,076	22,127
Prepaid expenses and other current assets	7,379	7,476
Total current assets	113,919	142,280
LONG-TERM INVESTMENTS	24,059	26,715
PROPERTY AND EQUIPMENT, NET	41,427	43,148
RESTRICTED ASSETS	14,540	12,393
OTHER ASSETS	3,075	3,876
TOTAL	$ 197,020	$ 228,412
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes and accounts payable	$ 9,851	$ 10,841
Income tax payable	991	1,065
Accrued expenses and other current liabilities	12,212	11,597
Total current liabilities	23,054	23,503
OTHER LONG-TERM LIABILITIES		
Accrued pension liabilities	455	520
FIN 48 tax liabilities	—	210
Total liabilities	23,509	24,233

	December 31	
	2006	2007
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY		
Preference shares at $0.00002 par value per share;		
Authorized — 250,000,000 shares;	—	—
Ordinary shares at $0.00002 par value per share;		
Authorized — 4,750,000,000 shares;		
Issued — 1,906,969,950 shares and 1,911,868,150 shares as of December 31, 2006 and 2007, respectively	38	38
Additional paid-in capital	140,224	144,944
Retained earnings	33,877	56,847
Accumulated other comprehensive (loss) income	(628)	3,646
Treasury stock — 5,000,000 shares as of December 31, 2007	—	(1,296)
Total shareholders' equity	173,511	204,179
TOTAL	$ 197,020	$ 228,412

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Thousand U.S. Dollars, Except Per Share Amounts)

	Years Ended December 31	
	2006	**2007**
NET SALES	$ 124,915	$ 165,540
COST OF SALES	56,772	71,099
GROSS PROFIT	68,143	94,441
OPERATING EXPENSES (INCOME)		
Research and development (a)	31,751	34,624
Selling, general and administrative (a)	29,209	34,712
Patent related litigation	10,962	10,848
Litigation income	—	(9,364)
Stock Exchange of Hong Kong listing expenses	786	—
Total operating expenses	72,708	70,820
(LOSS) INCOME FROM OPERATIONS	(4,565)	23,621
NON-OPERATING INCOME (EXPENSES)		
Interest income	3,627	3,262
Impairment loss on long-term investments	(756)	—
Foreign exchange loss, net	(261)	(548)
Other, net	248	105
Total non-operating income	2,858	2,819
(LOSS) INCOME BEFORE INCOME TAX	(1,707)	26,440
INCOME TAX (BENEFIT) EXPENSE	(2,450)	1,456
NET INCOME	743	24,984
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	695	1,667
Unrealized (loss) gain on available-for-sale securities	(205)	2,702
Unrealized pension loss	—	(95)
Total other comprehensive income	490	4,274
COMPREHENSIVE INCOME	$ 1,233	$ 29,258
EARNINGS PER SHARE		
Basic	$ 0.0004	$ 0.0131
Diluted	$ 0.0004	$ 0.0129

	Years Ended December 31	
	2006	2007
SHARES USED IN EARNINGS PER SHARE CALCULATION:		
Basic (in thousands)	1,932,575	1,905,725
Diluted (in thousands)	1,946,896	1,943,785
(a) INCLUDES STOCK-BASED COMPENSATION CHARGE AS FOLLOWS:		
Research and development	$ 1,181	$ 1,058
Selling, general and administrative	1,408	1,408
	$ 2,589	$ 2,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation.

2. STOCK-BASED COMPENSATION

The Company grants stock options to its employees and certain non-employees. Prior to January 1, 2006, the Company accounted for options granted under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and complied with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" for its employee stock options. Under APB No. 25, compensation expense is measured based on the difference, if any, on the date of the option grant, between the fair value of the Company's stock and the exercise price of the option.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment," using the modified prospective application method. Under this transition method, compensation cost recognized for the year ended December 31, 2006 and 2007, includes the applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, December 31, 2005 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)). Results for periods prior to January 1, 2006, have not been restated.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company recorded stock-based compensation of $2,589,000 to loss before income tax and net income for the year ended December 31, 2006, and resulted in a decrease of $0.0013 both to basic and diluted earnings per share. Total stock-based compensation includes the impact of stock options, restricted stock units grants and the employee stock purchase plan. The Company's policy for attributing the value of graded vest share-based payments is a straight-line approach.

3. ACCOUNTS RECEIVABLE, NET

(In Thousands)

	December 31	
	2006	**2007**
Accounts receivable	$ 19,310	$ 25,585
Allowances for		
Doubtful receivable	(7)	(88)
Sales returns and discounts	(316)	(897)
	$ 18,987	$ 24,600

The Company allows an average credit period from 30 to 50 days to its trade customers. The following is an aging analysis of accounts receivables net of impairment losses at the respective balance sheet dates:

	December 31	
	2006	**2007**
0 to 30 days	$ 18,510	$ 21,163
31 to 60 days	449	2,936
61 to 90 days	28	399
91 to 120 days	—	42
Over 120 days	—	60
	$ 18,987	$ 24,600

4. NOTES AND ACCOUNTS PAYABLE

The following is an aging analysis of notes and accounts payable at the respective balance sheet dates:

(In Thousands)

	December 31	
	2006	**2007**
0 to 30 days	$ 9,448	$ 10,224
31 to 60 days	262	592
61 to 90 days	90	25
91 to 120 days	—	—
Over 120 days	51	—
	$ 9,851	$ 10,841

5. INCOME TAX

(Loss) income before income taxes consisted of:

(In Thousands)

	Years Ended December 31	
	2006	2007
Cayman Islands	$ (3,395)	$ 20,832
Foreign	1,688	5,608
	$ (1,707)	$ 26,440

Income tax (benefit) expense consisted of:

(In Thousands)

	Years Ended December 31	
	2006	2007
Current	$ (1,605)	$ 1,650
Deferred	(845)	(194)
Income tax (benefit) expense	$ (2,450)	$ 1,456

The Company and its subsidiaries file separate income tax returns. Reconciliation of the significant differences between the statutory income tax rate and the effective income tax rate on pretax (loss) income is as follows:

	Years Ended December 31	
	2006	2007
Cayman statutory rate	0%	0%
Foreign rates in excess of statutory rates	35.21%	5.36%
Changes in deferred income tax assets	(49.56%)	(2.22%)
Adjustments to prior years' taxes	(190.22%)	(0.42%)
Change in valuation allowance for deferred income tax assets	35.62%	(2.96%)
Others	25.42%	5.75%
Effective tax rate	(143.53%)	5.51%

The deferred income tax assets and liabilities as of December 31, 2006 and 2007 consisted of the following:

	(In Thousands)	
	December 31	
	2006	2007
Deferred income tax assets		
Research and development credits	$ 5,553	$ 3,970
Organization costs	—	576
Net operating loss carryforwards	51	32
Accrued vacation	158	160
Depreciation and amortization	353	612
Deferred interest deductions	326	240
Others	29	292
	6,470	5,882
Valuation allowance	(6,144)	(5,360)
Total net deferred income tax assets	326	522
Deferred income tax liabilities		
Unrealized foreign exchange	42	71
Unrealized capital allowance	65	38
Total deferred income tax liabilities	107	109
Net deferred income tax assets	$ 219	$ 413
Balance sheet caption reported in:		
Prepaid expenses and other current assets	$ 31	$ 45
Other assets	295	477
Accrued expenses and other current liabilities	107	109
	$ 219	$ 413

The valuation allowance shown in the table above relates to net operating loss, credit carryforwards and temporary differences for which the Company believes that realization is uncertain. The valuation allowance increased $592,000 and decreased $784,000 for the years ended December 31, 2006 and 2007, respectively.

As of December 31, 2007, O_2 Micro, Inc. had US federal and state research and development credit carryforwards of approximately $3,716,000 and $3,810,000, respectively. The US federal research and development credit will expire from 2018 through 2027 if not utilized, while the state research and development credit will never expire.

The Company reversed $375,000 and $2,513,000 of income tax payable for the 2000 and 2001 tax years in September 2004 and in September 2006, respectively, due to completion of the examination and approval of its filed Taiwan income tax return for the years ended December 31, 2000 and 2001. The tax authorities also determined a tax refund for 2001 income tax; therefore, the Company recognized additional income tax benefit of $69,000 and received the refund in October 2006.

As a result of the implementation of FIN 48, the Company recognized a cumulative adjustment in the liability for unrecognized income tax benefits in the amount of $100,000, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings and an adjustment of income tax liabilities for unrecognized income tax benefits in the amount of $117,000, which was accounted for as a reduction to the January 1, 2007 balance of income tax payable. At the adoption date of January 1, 2007, the Company had $217,000 of unrecognized tax benefits, all of which would affect its effective tax rate if recognized. At December 31, 2007, the Company had $210,000 of unrecognized tax benefits, all of which would affect its effective tax rate if recognized. The Company does not recognize any interest and penalty related to uncertain tax positions in income tax expense as the related interests are not deemed material to the financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(In Thousands)
Balance as of January 1, 2007	$ 217
Increase in tax position balance during current year	110
Decrease in tax position balance during current year	(117)
Balance as of December 31, 2007	$ 210

Uncertain tax positions relate to the allocation of income amongst the Company's global entities. The Company estimates that there will be no material changes in its uncertain tax positions in the next 12 months.

The Company files income tax returns in various foreign jurisdictions. The Company is no longer subject to income tax examinations by tax authorities for years prior to 2003.

6. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period, using the treasury stock method for options.

A reconciliation of the numerator and denominator of basic and diluted earnings per share calculations is provided as follows:

	Years Ended December 31	
	2006	2007
Net income (in thousands)	$ 743	$ 24,984
Weighted average shares outstanding (in thousands) — basic	1,932,575	1,905,725
Effect of dilutive securities:		
Options and RSUs (in thousands)	14,321	38,060
Weighted average shares outstanding (in thousands) — diluted	1,946,896	1,943,785
Earnings per share — basic	$ 0.0004	$ 0.0131
Earnings per share — diluted	$ 0.0004	$ 0.0129

Certain outstanding options were excluded from the computation of diluted EPS since their effect would have been antidilutive. The antidilutive stock options excluded and their associated exercise prices per share were 254,805,913 shares at $0.1198 to $0.4836 as of December 31, 2006 and 166,279,163 shares at $0.1198 to $0.4836 as of December 31, 2007.

7. CONTINGENCIES

The Company is involved in a variety of litigation matters involving patents. For example, the Company has initiated and is pursuing certain patent infringement actions in Taiwan. The Company has obtained preliminary injunctions and provisional attachment orders against numerous competitors, their customers and users. As of December 31, 2007, the Company has deposited an amount of New Taiwan dollars equivalent to approximately $12.4 million with the Taiwan courts for court bonds, which was accounted for as restricted assets, in connection with those actions, other preliminary injunction actions and related provisional attachment actions. The court bonds provide security for the enjoined party to claim damages against the Company incurred from the preliminary injunctions, provisional attachments or the provision of a countersecurity in the event the Company does not ultimately succeed in the underlying infringement actions. However, these preliminary injunctions or provisional attachments may be rescinded if the relevant court allows the opposing party to make its own deposit or countersecurity with the court.

In February 2007, Monolithic Power Systems, Inc. amended its complaint in the Intermediate People's Court in Chengdu, China alleging that two of our customers infringe Chinese Patent Number ZL03140709.9.

In 2007, the Company received $9.4 million in litigation income in various patent litigation matters in the United States. In March 2008, the Company further received $2.0 million in litigation income in the United States.

While the Company cannot make any assurance regarding the eventual resolution of these matters, the Company does not believe the final outcome will have a material adverse effect on its consolidated results of operations or financial condition.

The Company, as a normal course of business, is a party to various litigation matters, legal proceedings and claims. These actions may be in various jurisdictions, and may involve patent protection and/or patent infringement. While the results of such litigations and claims cannot be predicted with certainty, the final outcome of such matters is not expected to have a material adverse effect on its consolidated financial position or results of operations. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing parties, with the potential for having an adverse effect on the Company’s financial position or its results of operations. As of December 31, 2007, no provision for any litigation has been provided.

8 SEGMENT INFORMATION

The Company designs, develops and markets high performance semiconductors for power management and security applications. The Company’s semiconductor products are produced with digital, analog, and mixed signal integrated circuit manufacturing processes. The Company’s Chief Operating Decision Maker (“CODM”), the Chief Executive Officer, reviews information on an enterprise-wide basis to assess performance and allocate resources and has determined the Company has one reporting segment.

Net sales to unaffiliated customers by geographic region are based on the customer’s ship-to location and were as follows:

(In Thousands)

	Years Ended December 31	
	2006	**2007**
China	$ 92,801	$ 133,887
Korea	15,018	13,435
Japan	9,603	11,992
Taiwan	6,559	4,232
Others	934	1,994
	$ 124,915	$ 165,540

For the year ended December 31, 2006, no customers accounted for 10% or more of net sales. For the year ended December 31, 2007, one customer accounted for 10% or more of net sales.

Long-lived assets consist of property and equipment and are based on the physical location of the assets at the end of each year, and were as follows:

(In Thousands)

	December 31	
	2006	**2007**
China	$ 13,015	$ 19,807
Taiwan	21,261	16,665
U.S.A.	6,669	6,347
Singapore	335	232
Others	147	97
	$ 41,427	$ 43,148

9. RECONCILIATIONS BETWEEN US GAAP AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

(a) The adjustments necessary to restate net income attributable to holders of ordinary shares and stockholders' equity in accordance with HKFRS are summarized as follows:

(In Thousands)

	Years Ended December 31	
	2006	**2007**
Net income attributable to holders of ordinary shares as reported under US GAAP	$ 743	$ 24,984
HKFRS adjustments		
(i) Additional stock-based compensation recognized under HKFRS 2 for the years ended December 31, 2006 and 2007	(456)	(938)
Net income attributable to holders of ordinary shares under HKFRS	$ 287	$ 24,046
Net income per share under HKFRS		
— basic	$ 0.0001	$ 0.0126
— diluted	$ 0.0001	$ 0.0124

(b) Under HKFRS, the Company's consolidated total assets and liabilities at December 31, 2006 and 2007 are as follows:

(In Thousands)

	December 31 2006	December 31 2007
Non-current assets		
Long-term investments	$ 24,059	$ 26,715
Property and equipment, net	40,001	42,270
Restricted assets	14,540	12,393
Deferred tax assets	326	522
Prepayments for property and equipment	1,426	878
Prepaid lease payments	1,350	1,321
Other assets	1,401	2,049
	83,103	86,148
Current assets		
Cash and cash equivalents	45,438	52,597
Restricted cash	8,342	6,830
Short-term investments	19,697	28,650
Accounts receivables, net	18,987	24,600
Inventories	14,076	22,127
Prepaid lease payments	29	29
Prepaid expenses and other current assets	7,348	7,431
	113,917	142,264
Total assets	197,020	228,412
Current liabilities		
Notes and accounts payable	9,851	10,841
Income tax payable	991	1,065
Accrued expenses and other current liabilities	12,105	11,488
	22,947	23,394
Total assets less current liabilities	174,073	205,018
Non-current liabilities		
Deferred tax liabilities	107	109
Accrued pension liabilities	455	520
Long-term tax liabilities	—	210
	562	839
Net assets	$ 173,511	$ 204,179
Net current assets	$ 90,970	$ 118,870

Except for the reclassification as current or non-current items with respect to deferred tax assets and liabilities, prepayment for property and equipment and land use rights, there are no other adjustments and reclassification made to the Company's consolidated balance sheets prepared under US GAAP for conversion into HKFRS.

10. DIVIDENDS

No dividend was declared for the financial year ended 31 December 2007.

RE-PURCHASE OF LISTED SECURITIES

During the year ended December 31, 2007, we repurchased an aggregate of 20,649,000 Shares with the price per share ranged from $ 0.1429 to $0.2654.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We design, develop and market high performance integrated circuits for power management and security applications, as well as systems security solutions. We also license a limited portion of our proprietary intellectual property to third parties. Our net sales have been derived primarily from the sale of analog and mixed-signal integrated circuit products to customers in the consumer electronics, computer, industrial and communications markets.

Our net sales have grown from $124.9 million in 2006 to $165.5 million in 2007. This increase in net sales was due primarily to higher unit shipments of our existing products, expansion of our customer base and the introduction of new products. We have continued to diversify our customer base and market focus by providing new products that are used in consumer electronics, computer, industrial and communications applications. Our overall gross margin has fluctuated in the past and is likely to fluctuate in the future due to the stages of our products in their life cycles, variations in our product mix, the timing of our product introductions and specific product manufacturing costs. New products typically have higher gross margins than products that are more mature. Gross margins on the products we sell will typically decline over the life of these products due to competitive pressures and volume pricing agreements.

Operating expenses decreased from $72.7 million in 2006 to $70.8 million in 2007. Our operating expenses decreased primarily due to the offset from litigation income received in 2007.

Our net income was $743,000 in 2006 and $25.0 million in 2007. We have been profitable in each quarter since the quarter ended September 30, 1999 except for the quarter ended June 30, 2006. We believe this profitability has been the result of our strategy to make investments to develop new products and grow net sales, while maintaining a high level of fiscal control, product quality and customer satisfaction as well as recent litigation income from certain litigation matters. Our profitability resulted in retained earnings of $56.8 million as of December 31, 2007.

We utilize a fabless semiconductor business model, which means we focus on designing, developing and marketing products, while having these products manufactured by large independent semiconductor foundries. Although we have developed certain internal testing capability, as a fabless semiconductor company, we do not need to invest significant capital to manufacture semiconductor devices, and can take advantage of some of the cost-efficiencies of third-party foundries. We place purchase orders for specific quantities of packaged semiconductor devices or wafers at set prices. We currently use third parties to test and assemble substantially all of our products, which helps offset the capital we need to invest in these activities. We also use independent assembly suppliers for the production of our systems security solutions products.

We sell our products through a combination of direct sales offices, sales representatives and distributors. We have sales representatives in China, Hong Kong, Singapore, Taiwan, and the United States, as well as distributors in Japan. In the years ended December 31, 2006 and 2007, we continued to experience increased sales.

Revenue from product sales to customers, other than distributors, is recognized at the time of shipment, including revenue that has been realized and earned. Sales through distributors are recognized when the distributors make a sale. Under certain conditions, customers may return defective products. Allowances for sales returns are provided on the basis of past experience. These provisions are deducted from sales.

CORPORATE GOVERNANCE

During the period under review, the Company has complied with the provisions of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except that Sterling Du has been serving as the Chairman of the Board and as our chief executive officer since March 1997. The Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. There is a clear division of the responsibilities between the management of the Board and the day-to-day management of our business, which relies on the support of the senior management. As such, the management power of our Company is not concentrated in any one individual. In addition, as six of the nine members of the Board are non-executive Directors, the role of the Chairman of the Board, who is also the chief executive officer, is important as he can maintain a close communication channel between the Board and the day-to-day management.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited annual financials for the year ended December 31, 2007.

By order of the Board
Sterling Du
Executive Director

Hong Kong, April 21, 2008

* *For identification purposes only.*

At the date of this announcement, Mr. Sterling Du, Mr. Chuan Chiung "Perry" Kuo and Mr. James Elvin Keim are executive directors of O_2Micro whereas Mr. Michael Austin, Mr. Geok Ling Goh, Mr. Lawrence Lai-Fu Lin, Keisuke Yawata, Mr. Xiaolang Yan and Mr. Ji Liu are independent non-executive directors.