Breathing Life into Mobility

O_2MICRO INTERNATIONAL LIMITED
凹 凸 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 457)

2008 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The Board of Directors (the "Board") is pleased to announce the audited consolidated results of O_2Micro International Limited and its subsidiaries (the "Company" or the "Group") for the year ended December 31, 2008.

Years Ended December 31, 2007 and 2008

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

	Years Ended December 31	
	2007	2008
	%	%
Consolidated Statement of Income Data:		
Net sales	100.0	100.0
Cost of sales	42.9	41.9
Gross profit	57.1	58.1
Operating expenses (income):		
Research and development	20.9	27.0
Selling, general and administrative	27.6	28.0
Goodwill impairment	—	2.0
Write-off of prepayment to foundry services	—	2.1
Litigation income	(5.7)	(1.4)
Total operating expenses	42.8	57.7
Income from operations	14.3	0.4
Non-operating income (expenses) — net	1.7	(8.7)
Income tax expenses	(0.9)	(1.6)
Net income (loss)	15.1	(9.9)

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

	Years Ended December 31	
	2007 (US$000)	**2008 (US$000)**
Integrated Circuits:		
Analog	126,436	98,779
Mixed-signal	13,280	26,222
Digital	23,856	8,672
Systems Security Solutions	1,967	3,369
Licensed Intellectual Property	1	1,783
Total	165,540	138,825

AUDITED ANNUAL RESULTS

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousand US Dollars, Except Per Share Amounts and Share Data)

	December 31	
ASSETS	**2007**	**2008**
CURRENT ASSETS		
Cash and cash equivalents	$ 52,597	$ 31,844
Restricted cash	6,830	1,153
Short-term investments	28,650	72,344
Accounts receivable, net (note 2)	24,600	10,578
Inventories	22,127	16,388
Prepaid expenses and other current assets	7,476	2,314
Total current assets	142,280	134,621
LONG-TERM INVESTMENTS	26,715	13,199
PROPERTY AND EQUIPMENT, NET	43,148	34,353
RESTRICTED ASSETS	12,393	1,411
INTANGIBLE ASSETS	—	4,929
OTHER ASSETS	3,876	4,760
TOTAL ASSETS	$ 228,412	$ 193,273

	December 31	
	2007	2008
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes and accounts payable (note 3)	$ 10,841	$ 4,120
Income tax payable	1,065	226
Accrued expenses and other current liabilities	11,597	8,269
Total current liabilities	23,503	12,615
OTHER LONG-TERM LIABILITIES		
Accrued pension liabilities	520	553
FIN 48 tax liabilities	210	302
Other liabilities	—	23
Total long-term liabilities	730	878
Total liabilities	24,233	13,493
COMMITMENTS AND CONTINGENCIES (note 6)		
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 —1,911,868,150 and 1,832,788,400 shares as of December 31, 2007 and 2008, respectively	38	37
Additional paid-in capital	144,944	141,784
Retained earnings	56,847	36,746
Accumulated other comprehensive income	3,646	1,213
Treasury stock — 5,000,000 shares and nil as of December 31, 2007 and 2008, respectively	(1,296)	—
Total shareholders' equity	204,179	179,780
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 228,412	$ 193,273

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Thousand US Dollars, Except Per Share Amounts and Share Data)

	Years Ended December 31	
	2007	**2008**
NET SALES	$ 165,540	$ 138,825
COST OF SALES	71,099	58,110
GROSS PROFIT	94,441	80,715
OPERATING EXPENSES (INCOME)		
Research and development (a)	34,624	37,424
Selling, general and administrative (a)	45,560	39,003
Goodwill impairment	—	2,782
Write-off of prepayment to foundry services	—	2,942
Litigation income	(9,364)	(2,000)
Total operating expenses	70,820	80,151
INCOME FROM OPERATIONS	23,621	564
NON-OPERATING INCOME (EXPENSES)		
Interest income	3,262	2,328
Impairment loss on long-term investments	—	(14,146)
Foreign exchange loss, net	(548)	(412)
Other, net	105	97
Total non-operating income (expenses)	2,819	(12,133)
INCOME (LOSS) BEFORE INCOME TAX (note 4)	26,440	(11,569)
INCOME TAX EXPENSE (note 4)	1,456	2,240
NET INCOME (LOSS)	24,984	(13,809)

	Years Ended December 31	
	2007	2008
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	1,667	1,466
Unrealized gain (loss) on available-for-sale securities	2,702	(3,776)
Unrealized pension loss	(95)	(123)
Total other comprehensive income (loss)	4,274	(2,433)
COMPREHENSIVE INCOME (LOSS)	$ 29,258	$ (16,242)
EARNINGS (LOSS) PER SHARE (note 5)		
Basic	$ 0.01	$ (0.01)
Diluted	$ 0.01	NA
NUMBER OF SHARES USED IN EARNINGS PER SHARE CALCULATION:		
Basic (in thousands)	1,905,725	1,862,831
Diluted (in thousands)	1,943,785	1,869,218
(a) INCLUDES STOCK-BASED COMPENSATION CHARGE AS FOLLOWS:		
Research and development	$ 1,058	$ 1,067
Selling, general and administrative	$ 1,408	$ 1,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars Unless Otherwise Noted)

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. ACCOUNTS RECEIVABLE, NET

(In Thousands)

	December 31	
	2007	**2008**
Accounts receivable	$ 25,585	$ 11,144
Allowances for		
Doubtful accounts	(88)	(283)
Sales returns and discounts	(897)	(283)
	$ 24,600	$ 10,578

The Company allows an average credit period from 40 to 60 days to its trade customers. The following is an aging analysis of accounts receivables net of impairment losses at the respective balance sheet dates:

(In Thousands)

	December 31	
	2007	**2008**
0 to 30 days	$ 21,163	$ 8,669
31 to 60 days	2,936	1,720
61 to 90 days	399	118
91 to 120 days	42	26
Over 120 days	60	45
	$ 24,600	$ 10,578

3. 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	
	2007	**2008**
0 to 30 days	$ 10,224	$ 3,946
31 to 60 days	592	145
61 to 90 days	25	5
Over 90 days	—	24
	$ 10,841	$ 4,120

4. INCOME TAX

The Company is not subject to income or other taxes in the Cayman Islands. However, subsidiaries are subject to taxes of the jurisdiction where they are located.

Income (loss) before income taxes consisted of:

(In Thousands)

	Years Ended December 31	
	2007	**2008**
Cayman Islands	$ 20,832	$ (18,493)
Foreign	5,608	6,924
	$ 26,440	$ (11,569)

Income tax expense consisted of:

(In Thousands)

	Years Ended December 31	
	2007	**2008**
Current	$ 1,650	$ 2,194
Deferred	(194)	46
Income tax expense	$ 1,456	$ 2,240

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 income (loss) was as follows:

	Years Ended December 31	
	2007	**2008**
Cayman statutory rate	0%	0%
Foreign rates in excess of statutory rates	5.36%	(15.75%)
Changes in deferred income tax assets	(2.22%)	(7.91%)
Adjustments to prior years' taxes	(0.42%)	0.22%
Change in valuation allowance for deferred income tax assets	(2.96%)	6.62%
Other	5.75%	(2.54%)
Effective tax rate	5.51%	(19.36%)

The deferred income tax assets and liabilities as of December 31, 2007 and 2008 consisted of the following:

(In Thousands)

	December 31	
	2007	**2008**
Deferred income tax assets		
Research and development credits	$ 3,970	$ 4,182
Organization costs	576	—
Net operating loss carryforwards	32	1
Accrued vacation	160	58
Depreciation and amortization	612	498
Deferred interest deductions	240	97
Other	292	131
	5,882	4,967
Valuation allowance	(5,360)	(4,594)
Total net deferred income tax assets	522	373
Deferred income tax liabilities		
Unrealized capital allowance	38	6
Unrealized foreign exchange	71	—
Total deferred income tax liabilities	109	6
Net deferred income tax assets	$ 413	$ 367

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 decreased by $784,000 and $766,000 for the years ended December 31, 2007 and 2008, respectively.

As of December 31, 2008, O_2Micro, Inc. had US federal and state research and development credit carryforwards of approximately $3,995,000 and $4,266,000, respectively. The US federal research and development credit will expire from 2019 through 2028 if not utilized, while the state research and development credit will never expire.

Effective at the beginning of the first quarter of 2007, the Company adopted the provisions of FIN48. 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, 2008, the Company had $302,000 of unrecognized tax benefits, all of which would affect its effective tax rate if recognized. As of December 31, 2008, the Company had $81,000 of interest and penalty related to uncertain tax positions included in income tax expense. No interest and penalty related to uncertain tax positions were recorded as of December 31, 2007 due to their immateriality to the financial statements.

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

(In Thousands)

	Years Ended December 31	
	2007	**2008**
Balance, beginning of the year	$ 217	$ 210
Increase in tax position balance during current year	110	92
Decrease in tax position balance during current year	(117)	—
Balance, end of the year	$ 210	$ 302

Uncertain tax positions were primarily related 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 generally no longer subject to income tax examinations by tax authorities for years prior to 2004.

5. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) 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 (loss) per share calculations was as follows:

	Years Ended December 31	
	2007	**2008**
Net income (loss) (in thousands)	$ 24,984	$ (13,809)
Weighted average shares outstanding (in thousands) — basic	1,905,725	1,862,831
Effect of dilutive securities:		
Options and RSUs (in thousands)	38,060	6,387
Weighted average shares outstanding (in thousands) — diluted	1,943,785	1,869,218
Earnings (loss) per share — basic	$ 0.01	$ (0.01)
Earnings per share — diluted	$ 0.01	NA

Certain outstanding options and RSUs 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 166,279,163 shares at $0.1198 to $0.4836 as of December 31, 2007, and 297,832,900 shares at $0.0522 to $0.4836 as of December 31, 2008.

6. CONTINGENCIES

The Company is involved in several litigation matters relating to its intellectual property, as detailed below. While the Company cannot make any assurance regarding the eventual resolution of these matters, the Company does not believe at this time that the final outcomes will have a material adverse effect on its consolidated results of operations or financial condition.

Certain Cold Cathode Fluorescent Lamp Inverter Circuits And Products Containing Same, Investigation No. 337-TA-666. On December 15, 2008, the Company filed a complaint with the United States International Trade Commission in Washington, D.C. The Company alleges that Monolithic Power Systems, Inc. ("MPS"), Microsemi Corporation ("Microsemi"), Asustek, LG and BenQ have engaged in unfair acts through the unlicensed importation of certain products with MPS or Microsemi inverter controllers covered by the Company's patents. The Company seeks an order preventing the importation of the products into the United States.

Monolithic Power Systems, Inc. v. O_2Micro International Limited, Case No. C 08-4567 CW. On October 1, 2008, MPS filed a complaint for declaratory judgment that certain claims of the Company's patents are invalid and not infringed. The Company has filed counterclaims for patent infringement.

Monolithic Power Sys. v. O_2Micro Int'l Ltd., 2009 U.S. App. LEXIS 4528 (Fed. Cir. Mar. 5, 2009). On March 5, 2009, the United States Court of Appeals for the Federal Circuit affirmed the judgment of the District Court for the Northern District of California that certain claims of the Company's U.S. Patent Number 6,396,722 are invalid as obvious under 35 U.S.C. § 103. The Company has filed an appeal on April 6, 2009.

O_2Micro Int'l Ltd. v. Taiwan Sumida Elecs., Inc., 2009 U.S. App. LEXIS 4382 (Fed. Cir. Mar. 5, 2009). In a companion case involving Taiwan Sumida Electronics, Inc., the Federal Circuit vacated a judgment of infringement from the District Court for the Eastern District of Texas because the Federal Circuit had held in the MPS case that the same claims of the '722 patent were invalid. The Company has filed an appeal on April 6, 2009.

O_2Micro International Ltd. v. Beyond Innovation Technology Co. et al., Civil Action No. 2:04-CV-32 (TJW). On April 3, 2008, the United States Court of Appeals for the Federal Circuit vacated a jury verdict, final judgment of infringement, and permanent injunction against defendants Beyond Innovation Technology Company Limited, SPI Electronic Company Limited and FSP Group, and Lien Chang Electronic Enterprise Company Limited. The Federal Circuit further remanded the case to the Eastern District of Texas, and the case is scheduled for trial in July 2009.

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

As of December 31, 2008, the Company deposited an amount of New Taiwan dollars equivalent to $1,411,000 with the Taiwan court for court bonds, which was accounted for as restricted assets, in connection with those actions and related preliminary injunction actions. The court bonds provide security for the enjoined party to claim damages against the Company incurred from the preliminary injunctions or the provision of a countersecurity in the event the Company does not ultimately succeed in the underlying infringement actions.

In 2007, the Company received $9,364,000 litigation proceeds from the MPS, Sony Corporation, and Samsung Electronics Co., Ltd. litigation cases in the United States. In March 2008, the Company further received $2,000,000 from a litigation case with Rohm Co. Ltd. settled in the United States.

The Company, as a normal course of business, is a party to litigation matters, legal proceedings, and claims. These actions may be in various jurisdictions and may involve patent protection and/or 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, 2008, no provision for any litigation has been provided.

7 SEGMENT INFORMATION

In September 2008, the Board approved a plan to transfer Network Security business to O_2Security Limited ("O_2Security") along with its Series A preference shares financing. In anticipation of the business transfer, management identified two reportable segments as of December 31, 2008, including Integrated Circuit Group and Network Security Group. The Integrated Circuit Group's core products and principal source of revenue are its power management semiconductors. These semiconductor products are produced with digital, analog, and mixed signal integrated circuit manufacturing processes. The Network Security Group's system security solution products include support for virtual private networks ("VPNs") and firewalls, which provide security functions between computer systems and networks, including the transmission of data across the Internet.

Prior to the approval of the transfer plan of O_2Seucrity, the Company's Chief Operating Decision Maker ("CODM"), the Chief Executive Officer, reviewed information on an enterprise-wide basis to assess performance and allocate resources. Commencing in the fourth quarter of 2008, the CODM began to manage the Company on the basis of the new segment structure and assessed the performance of each operating segment using information of its net sales and income from operations. Historical results have been adjusted to reflect the new segment structure as of December 31, 2008.

The Company does not identify or allocate assets by operating segment, nor does the CODM evaluate operating segments using discrete asset information. The Company does not have inter-segment revenue, and, accordingly, there is none to be reported. The Company does not allocate gains and losses from interest and other income, or income taxes to operating segments. The accounting policies for segment reporting are the same as for the Company as a whole.

Operating segment net sales and operating income (loss) were as follows:

(In Thousands)

	Years Ended December 31	
	2007	**2008**
Net sales		
Integrated Circuit Group	$ 163,573	$ 135,438
Network Security Group	1,967	3,387
	$ 165,540	$ 138,825
Income (loss) from operations		
Integrated Circuit Group	$ 30,234	$ 7,308
Network Security Group	(6,613)	(6,744)
	$ 23,621	$ 564

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	
	2007	**2008**
China	$ 133,887	$ 109,083
Korea	13,435	10,742
Japan	11,992	12,952
Taiwan	4,232	2,606
Other	1,994	3,442
	$ 165,540	$ 138,825

For the year ended December 31, 2007, one customer accounted for 10% or more of net sales. For the year ended December 31, 2008, two customers accounted for 10% or more of net sales. Sales to these major customers were generated from the Integrated Circuit Group. The percentage of net sales for those customers was as follows:

	Years Ended December 31	
	2007	**2008**
A	9.4%	12.3%
B	11.1%	11.5%

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)

	Years Ended December 31	
	2007	**2008**
China	$ 19,807	$ 13,873
Taiwan	16,665	14,994
U.S.A.	6,347	5,348
Singapore	232	73
Other	97	65
	$ 43,148	$ 34,353

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

(a) The adjustments necessary to reconcile net income attributable to holders of ordinary shares in accordance with HKFRS are summarized as follows:

(In Thousands, Except Per Share Amounts)

	Years Ended December 31	
	2007	**2008**
Net income (loss) attributable to holders of ordinary shares as reported under US GAAP	$ 24,984	$ (13,809)
HKFRS adjustments		
— Additional stock-based compensation recognized under HKFRS 2 for the years ended December 31, 2007 and 2008	(938)	(665)
Net income (loss) attributable to holders of ordinary shares under HKFRS	$ 24,046	$ (14,474)
Net income (loss) per share under HKFRS		
— Basic	$ 0.0126	$ (0.0078)
— Diluted	$ 0.0124	NA

(b) Under HKFRS, the Company's consolidated total assets and liabilities at December 31, 2007 and 2008 were as follows:

(In Thousands)

	December 31	
	2007	**2008**
Non-current assets		
Long-term investments	$ 26,715	$ 13,199
Property and equipment, net	42,270	33,902
Restricted assets	12,393	1,411
Deferred income tax assets	522	373
Prepayments for property and equipment	878	451
Prepaid lease payments	1,321	1,293
Intangible assets	—	4,929
Other assets	2,049	3,151
	86,148	58,709
Current assets		
Cash and cash equivalents	52,597	31,844
Restricted cash	6,830	1,153
Short-term investments	28,650	72,344
Accounts receivables, net	24,600	10,578
Inventories	22,127	16,388
Prepaid lease payments	29	29
Prepaid expenses and other current assets	7,431	2,228
	142,264	134,564
Total assets	228,412	193,273
Current liabilities		
Notes and accounts payable	10,841	4,120
Income tax payable	1,065	226
Accrued expenses and other current liabilities	11,488	8,263
	23,394	12,609
Total assets less current liabilities	205,018	180,664
Non-current liabilities		
Deferred income tax liabilities	109	6
Accrued pension liabilities	520	553
Long-term tax liabilities	210	302
Other liabilities	—	23
	839	884
Net assets	$ 204,179	$ 179,780
Net current assets	$ 118,870	$ 121,955

Except for the reclassification as current or non-current items with respect to deferred income 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.

9. DIVIDENDS

No dividend was declared for the financial year ended December 31, 2008.

RE-PURCHASE OF LISTED SECURITIES

During the year ended December 31, 2008, we repurchased an aggregate of 88,008,650 shares with the price per share ranging from $ 0.0813 to $0.1870.

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, digital, and mixed-signal integrated circuit products to customers in the consumer electronics, computer, industrial and communications markets.

Our net sales have decreased from $165.5 million in 2007 to $138.8 million in 2008. This decrease in net sales was due primarily to the deterioration in the general demand for electronic products as a result of inventory adjustments in supply chain because of macro-economic decline. Although we cannot estimate the extent to which our business will be affected in the future, we will continue 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 increased from $70.8 million in 2007 to $80.2 million in 2008. Our operating expenses increased primarily due to $5.7 million of combined non-recurring items for goodwill impairment and the write-off of prepaid foundry services. The increase was also owing to decreased litigation income of $2.0 million received in 2008 as compared to $9.4 million in 2007.

Our net income was $25.0 million in 2007 and our net loss was $13.8 million in 2008. The increase in net loss in 2008 was primarily due to decreased sales and gross margin, increased impairment on long-term investments, increased non-recurring charges of goodwill impairment and write-off of prepayments to foundry providers, and decreased litigation income.

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 and China. 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 on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that Mr. 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 the 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, 2008.

By order of the Board
Sterling Du
Executive Director

Hong Kong, April 21, 2009

As 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. Teik Seng Tan, Mr. Lawrence Lai-Fu Lin, Mr. Keisuke Yawata, Mr. Xiaolang Yan and Mr. Ji Liu are independent non-executive directors.

* *For identification purposes only.*