

## **To Our Shareholders**

By almost every measure fiscal 2005 has been an outstanding year for O<sub>2</sub>Micro. This marks the company's 11th consecutive year of revenue growth, and 7th consecutive year of profitability. We are pleased with the record performance of O<sub>2</sub>Micro in 2005.

Revenue grew to a record high level with net sales for fiscal year 2005 reaching \$105.6 million, an increase of 14% over \$92.2 million for the previous year. Net income was \$8.1 million.

As the company continues to focus on growth with products that contribute high value to customers and have high barriers to entry for competition, we have furthered confirmed our commitment to grow Research and Development. In 2005 the Company invested \$25.4 million in R&D committing 24% of its revenue in its future growth.

Targeting the Computer, Consumer, Industrial and Communications markets with its broad portfolio of products and an unequaled depth of intellectual property O<sub>2</sub>Micro provides proprietary high performance power management and security solutions.

The Computer market continues to require more performance with less power consumption. O<sub>2</sub>Micro's system level expertise and analog-mixed signal IC design skills provide superior cost-effective system level performance. O<sub>2</sub> incorporates more functionality into its proprietary products providing more value to our customers.

The Consumer market, fueled by the accelerating acceptance by consumers of attractively priced LCD TV, LCD monitors, and portable hand held devices is continuing to rapidly expand. O<sub>2</sub>Micro's integrated circuits, including display backlight inverters and power management units, provide the high performance solutions needed by these products. O<sub>2</sub>Micro's revenue to the Consumer market increased in each quarter of 2005, just as it did in 2004.

O<sub>2</sub>Micro products for the Industrial application offer reliability over an extended temperature range. Currently O<sub>2</sub> supplies products for automotive applications in North America and Japan.

With two families of security systems products, O<sub>2</sub> has now entered The Communications market. SifoWorks™, IPsec VPN-Firewall, is well suited for organizations with up to 20,000 users and the Succendo™, SSL-VPN Gateway, is well suited for organizations with up to 2,000 users.

As its supply chain partners concentrate into China, O<sub>2</sub> has initiated a strategic program to focus its exposure in the Asian-pacific markets. An integral part of this program is to recruit and develop a talented employee base. This is being accomplished through an innovative scholarship programs and joint laboratory research at leading Universities in China.

In addition to serve employees, vendors and customers, plans were made during 2005 for the listing of shares on the Hong Kong Stock Exchange (SEHK). With strong links with China and other economies in South-east Asia, Hong Kong has developed into an important international financial center. Hong Kong's financial markets operate under effective and transparent regulations, which meet international standards The trading of O<sub>2</sub>Micro shares under the symbol (0457) began March 2, 2006. This is in addition to O<sub>2</sub>Micro securities trading in NASDAQ (O2IM) and CSX, Cayman Stock Exchange (O2IM).

We are proud of our accomplishments and want to thank our shareholders, customers, employees, partners, and suppliers for their continued commitment and confidence in O<sub>2</sub>. We anticipate continued demand for our, products that bring innovative power management and security solutions to electronic devices in our focus markets of Computer, Consumer, Industrial and Communications and we look forward to another year of continued growth and success in 2006.

Thank you for your continued support.



Sterling Du  
Chairman of the Board and  
Chief Executive Officer