O2MICRO INTERNATIONAL LTD
Form F-3
October 17, 2005

As filed with the Securities and Exchange Commission on October 17, 2005

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM F-3

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

O2MICRO INTERNATIONAL LIMITED

(Exact Name of Registrant as Specified in Its Charter)

The Cayman Islands	**Not Applicable**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification Number)**

Grand Pavilion Commercial Centre

West Bay Road

P.O. Box 32331 SMB

George Town

Grand Cayman, Cayman Islands

(345) 945-1110

(Address and Telephone Number of Registrant s Principal Executive Offices)

Sterling Du, Chief Executive Officer

O2Micro International Limited

c/o O2Micro, Inc.

3118 Patrick Henry Drive

Santa Clara, California 95054

(408) 987-5920

(Name, Address and Telephone Number of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

Title of Each Class of Securities to be Registered[1]	Proposed Maximum Aggregate Offering Price [2] [3]	Amount of Registration Fee
Ordinary Shares, US$0.001 par value per share	$115,000,000	$13,535.50

(1) American depositary shares issuable upon deposit of the ordinary shares registered hereby will be registered pursuant to a separate registration statement on Form F-6 filed with the Commission.
(2) Includes (a) shares that may be purchased by the underwriters pursuant to an over-allotment option and (b) ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public. These ordinary shares are not being registered for the purpose of sales outside the United States.
(3) Estimated solely for the purpose of determining the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until a registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued October 17, 2005

Ordinary Shares

[GRAPHIC APPEARS HERE]

O2Micro International Limited

We are offering ordinary shares. This offering is part of a global offering of an aggregate of ordinary shares, including a Hong Kong public offering of ordinary shares.

We have applied for the listing of and permission to trade our ordinary shares on The Stock Exchange of Hong Kong Limited under the stock code .

Our ordinary shares are quoted on the Nasdaq National Market, or Nasdaq, under the symbol OIIM. On October 14, 2005, the last reported sale price of our ordinary shares was US$13.54 per ordinary share or approximately HK$105.07 per ordinary share based on an exchange rate of HK$7.76 per US$1.00, the noon buying rate in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on such date.

In connection with this offering, we intend to apply for the quotation of American depositary shares, or ADSs, on Nasdaq with each ADS representing 50 of our ordinary shares after giving effect to a proposed 50-for-1 share split.

Investing in the ordinary shares involves risks. See "Risk Factors" beginning on page 8.

PRICE HK$ AN ORDINARY SHARE

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to O2Micro International*
Per Ordinary Share	*HK$* (1)	*HK$*	*HK$*
Total(2)	*HK$*	*HK$*	*HK$*

(1) Approximately US$ per ordinary share based on an exchange rate of HK$ per US$1.00, the noon buying rate on , 2005 in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

(2) Does not include any proceeds from the sale of ordinary shares in the Hong Kong public offering. The aggregate gross proceeds from this offering and the Hong Kong public offering are expected to be HK$.

We have granted to the underwriters the right to purchase up to an additional ordinary shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ordinary shares to purchasers on , 2005.

MORGAN STANLEY

NEEDHAM & COMPANY, LLC

PIPER JAFFRAY

, 2005

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are permitted. The information contained or incorporated by reference in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our ordinary shares.

In this prospectus, O2Micro, we, our and us refer to O2Micro International Limited and our subsidiaries. Our logo and the names of our produc mentioned in this prospectus, including SmartCardBus, SmartCardSensing, O2 Micro Smart Card Enabled, INTELLIGENT INVERTER, Intelligent Charger, AudioDJ, IntelligentDJ, SuperDJ, Digital Laser Trim, ULTRA EFFICIENT, Phase-On-Demand, Breathing Life Into Mobility, S.A.F.E. Technology and Battery Crisis Management, are our service marks or trademarks. This prospectus also contains trademarks, trade names and service marks of other companies. Each trademark, trade name or service mark of another company appearing in this prospectus belongs to its holder.

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FORWARD-LOOKING STATEMENTS

Some of the statements under Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Industry Overview and Business and elsewhere in this prospectus constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, esti potential or continue or the negative of these terms and other comparable terminology. The forward-looking statements contained in this prospectus involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from the future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include, among other things, those discussed under Risk Factors and elsewhere in this prospectus.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company, the ordinary shares being offered and sold in this offering and our historical financial statements and their notes appearing elsewhere in this prospectus and in the documents incorporated by reference in this prospectus. You should read this entire prospectus carefully when evaluating an investment in our ordinary shares. Information regarding our ordinary shares and our ADSs is presented in this prospectus to give effect to the proposed 50-for-1 share split with each ADS representing 50 post-split ordinary shares.

Our Business

O2Micro International Limited

We design, develop and market high performance integrated circuits for power management and security applications. We focus our product design efforts on integrated circuits for consumer electronics, computer, industrial and communications products, such as liquid crystal displays, LCD computer monitors, LCD televisions, notebook computers, Internet security devices, global positioning systems, or GPS, mobile phones and portable DVD players. Our products manage and provide power for lighting of LCDs, provide connections between notebook computers and external plug-in cards, provide Internet security, control and monitor battery charging and discharging, and select and switch between power sources.

We believe that our focus on these products provides us with an opportunity to participate in large and growing markets. Potential future growth in the LCD television market, especially units with larger-size panels, represents an attractive growth opportunity for us because larger LCD panels require more of our inverters for cold cathode fluorescent lamps, or CCFLs.

Most of our products use mixed-signal designs, which combine analog and digital circuits on a single chip, reducing the number of components needed and allowing our customers to reduce the size, weight, power requirements and/or cost of their products. We offer a wide range of proprietary application specific standard products as well as customized products. We work closely with our customers to identify their product needs and establish engineering priorities for new product designs and development. We believe that our system-level expertise and extensive experience with power management systems allow us to develop proprietary solutions and foster long-term relationships with our customers.

We sell our products to original equipment manufacturers, or OEMs, original design manufacturers, or ODMs, and module makers. Our integrated circuits have been incorporated into products sold by Acer, Apple Computer, Dell, Fujitsu, Hewlett-Packard, Lenovo, LG Electronics, NEC, Samsung Electronics, Sharp, Sony and Toshiba, among others. We sell our products through our direct sales force, independent sales representatives and distributors in China, Japan, Korea, Singapore, Taiwan and the United States. We also have design centers in many of our key markets to provide design and engineering support to our customers. We outsource the fabrication of our products to standard, high volume semiconductor foundries. This fabless approach allows us to focus on product development, minimize fixed costs and capital expenditures, and access diverse manufacturing technologies.

Our net sales have grown from US$70.2 million in 2002 to US$88.6 million in 2003 and US$92.2 million in 2004. In the six months ended June 30, 2005, our net sales were US$48.9 million, an increase of 5.7% as compared with net sales of US$46.3 million in the same period in 2004.

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Competitive Strengths

The following competitive strengths are key to our strong track record and we expect they will continue to facilitate our future growth:

- technology expertise in mixed-signal design and system-level architecture;
- broad intellectual property portfolio;
- global operations to maximize efficiency;
- large and growing markets for our products; and
- strategic presence in the People s Republic of China, or PRC.

Business Strategy

Through leveraging our competitive strengths and implementing the following strategies, we aim to become a leading supplier of power management integrated circuits to the consumer electronics, computer, industrial and communications markets and to penetrate the market for security applications effectively:

- target high growth markets;
- continue strengthening our relationships with market leading vendors;
- leverage our system-level expertise to anticipate customer demand and develop next-generation products with long life cycles;
- actively protect our intellectual property;
- expand investment in our supply chain; and
- expand our presence in the PRC.

Corporate Information

We were originally incorporated under the name of O2Micro, Inc. in the State of California in March 1995. O2Micro International Limited, a Cayman Islands company, was formed in March 1997 in connection with a share exchange with the shareholders of O2Micro, Inc. Our headquarters are located at The Grand Pavilion Commercial Centre, West Bay Road, George Town, Grand Cayman, Cayman Islands, and our telephone number is (345) 945-1110.

Share Split and ADS Program

On August 23, 2005, our board of directors approved, subject to shareholder approval, the following proposals:

- listing of our ordinary shares on The Stock Exchange of Hong Kong Limited, or HKSE;
- creation of an ADS program for our ADSs to be quoted on Nasdaq, with each ADS representing 50 ordinary shares; and
- 50-for-1 share split to be effected prior to such listing of our ordinary shares and creation of such ADS program.

In connection with these proposals, our board of directors has called an extraordinary general meeting of shareholders to be held on November 14, 2005. There is no assurance whether or when relevant regulatory or shareholder approvals will be obtained.

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THE GLOBAL OFFERING

Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise the over-allotment option to purchase additional ordinary shares. See Underwriters.

Global Offering	The offering of ordinary shares consisting of this offering and the Hong Kong public offering.
This Offering	ordinary shares offered to investors in the United States and other parts of the world, including to professional and institutional investors in Hong Kong.
Hong Kong Public Offering	ordinary shares offered to the public in Hong Kong, conditional upon the listing committee of the HKSE granting the listing of and permission to trade in the ordinary shares. To the extent that the Hong Kong public offering is oversubscribed by 15, 50, and 100 times, , , and ordinary shares, respectively, will be reallocated from this offering to the Hong Kong public offering. Any unsold ordinary shares being offered in the Hong Kong public offering may be reallocated to this offering.
Ordinary Shares	Ordinary shares, par value US$0.00002 per share, which will be listed on the HKSE.
Over-allotment Option	The option granted by us to the underwriters to purchase up to an aggregate of ordinary shares, at the public offering price, exercisable in whole or in part by Morgan Stanley & Co. International Limited, on behalf of the underwriters from time to time within 30 days following the date of this prospectus.
Offering Price in this Offering	HK$ per ordinary share (approximately US$ per ordinary share based on an exchange rate of HK$ per US$1.00, the noon buying rate on , 2005 in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York).
Offering Price in the Hong Kong Public Offering	The initial public offering price per ordinary share in the Hong Kong public offering. When increased by a 1% brokerage fee, a 0.005% transaction levy, a 0.002% investor compensation levy and a 0.005% trading fee payable by purchasers, the offering price in the Hong Kong public offering is expected to be equivalent to the offering price in this offering, subject to the maximum offering price as stated in the Hong Kong prospectus.

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Timing of Global Offering

The following is a tentative timetable of various events in the global offering:

Hong Kong public offering commences	, Hong Kong time
Pricing of global offering	, New York time
Hong Kong public offering closes	, Hong Kong time
Final allocation of ordinary shares	, Hong Kong time
Trading of ordinary shares commences on the HKSE	, Hong Kong time

Five Business Day Gap between Pricing and Trading of Ordinary Shares

The ordinary shares offered in the global offering will not commence trading on the HKSE until they are delivered and all of the conditions contained in the underwriting agreement for the Hong Kong public offering have been satisfied, which is expected to be five Hong Kong business days after the date of pricing of the ordinary shares. You may not be able to sell or otherwise deal in the ordinary shares offered in the global offering prior to the commencement of trading on the HKSE.

Use of Proceeds

We estimate that the aggregate net proceeds to us from the global offering will be approximately HK$ million.

We intend to invest these net proceeds for:

- **the construction and subsequent expansion of a semiconductor testing facility in the PRC**, including the purchase of properties, plant and equipment;
- **research and development**, including the hiring of, and provision of training to, additional design engineers located in the PRC, and engineering projects focused on existing product upgrades and next-generation product development;
- **investments related to securing production capacity**, including, but not limited to, making equity investments in our suppliers in the future if suitable opportunities arise; and
- **expansion of our operational infrastructure**, including entering into new leases, setting up new offices and purchasing IT equipment.

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	Any remaining amount will be used as working capital and other general corporate purposes, continued protection of our intellectual property and expansion of our sales and support staff in our targeted markets to develop and build stronger relationships with existing and prospective customers.
Listing	We have applied for the listing of and permission to trade our ordinary shares on the HKSE under the stock code .
	Our ordinary shares are quoted on Nasdaq under the symbol OIIM. On October 14, 2005, the last reported sale price of our ordinary shares was US$13.54 per ordinary share, or approximately HK$105.07 per ordinary share based on an exchange rate of HK$7.76 per US$1.00, the noon buying rate in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on such date.
	In connection with this offering, we intend to apply for the quotation of ADSs on Nasdaq, with each ADS representing 50 of our ordinary shares after giving effect to a proposed 50-for-1 share split.
Ordinary Shares Outstanding after the Global Offering	
	ordinary shares, including ordinary shares represented by ADSs.
ADSs	American depositary shares with each ADS representing 50 ordinary shares held by The Bank of New York, as depositary. ADSs are evidenced by American Depositary Receipts, or ADRs.

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Summary Consolidated Financial Information

The summary consolidated financial data presented below, as of and for the years ended December 31, 2002, 2003 and 2004 and the six months ended June 30, 2004 and 2005, is derived from our audited (or, in the case of June 30, 2004, unaudited) consolidated financial statements included in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements, and have included all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. The historical results are not necessarily indicative of results to be expected in any future period. You should read these results in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

Earnings per ordinary share, earnings per ADS data and the number of shares used to compute earnings per ordinary share and earnings per ADS are presented in the table below to give effect to the proposed 50-for-1 share split with each ADS representing 50 post-split ordinary shares.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	**2003**	**2004**	**2004**	**2005**
	(in thousands, except for per ordinary share and per ADS data, or as otherwise stated)				
Profit and Loss Account Data:					
Net sales	$ 70,187	$ 88,599	$ 92,196	$ 46,261	$ 48,913
Cost of sales	28,143	38,314	37,403	19,124	18,521
Gross profit	42,044	50,285	54,793	27,137	30,392
Operating expenses:					
Research and development	18,935	19,219	20,260	9,242	11,590
Selling, general and administrative	11,790	13,522	16,348	7,514	9,760
Patent litigation	535	3,954	5,334	1,728	5,133
Stock-based compensation	44				
Total operating expenses	31,304	36,695	41,942	18,484	26,483
Income from operations	10,740	13,590	12,851	8,653	3,909
Non-operating income net	1,662	1,437	2,705	804	1,222
Income before income tax	12,402	15,027	15,556	9,457	5,131
Income tax expenses	1,673	1,826	1,472	1,103	62
Net income	$ 10,729	$ 13,201	$ 14,084	$ 8,354	$ 5,069
Earnings per ordinary share:					
Basic	$ 0.0056	$ 0.0069	$ 0.0072	$ 0.0043	$ 0.0026
Diluted	$ 0.0054	$ 0.0066	$ 0.0070	$ 0.0041	$ 0.0026

Basic(1)	HK$	0.04	HK$	0.05	HK$	0.06	HK$	0.03	HK$	0.02
Diluted(1)	HK$	0.04	HK$	0.05	HK$	0.05	HK$	0.03	HK$	0.02
Shares used to compute earnings per ordinary share (in thousands):										
Basic		1,915,000		1,918,700		1,957,800		1,958,050		1,958,850
Diluted		1,979,550		1,986,800		2,005,100		2,023,350		1,984,050
Earnings per ADS:										
Basic	$	0.28	$	0.34	$	0.36	$	0.21	$	0.13
Diluted	$	0.27	$	0.33	$	0.35	$	0.21	$	0.13
Shares used to compute earnings per ADS (in thousands):										
Basic		38,300		38,374		39,156		39,161		39,177
Diluted		39,591		39,736		40,102		40,467		39,681

(1) Based on an exchange rate of HK$7.77 per US$1.00, the noon buying rate on June 30, 2005 in The City of New York for cable transfer of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

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	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Balance Sheet Data:					
Cash and cash equivalents and short-term investments	$ 112,009	$ 120,412	$ 120,088	$ 122,427	$ 114,591
Working capital	120,793	130,510	132,713	134,051	126,130
Total assets	145,837	169,293	185,196	178,196	194,768
Net assets	135,148	154,727	170,781	164,494	175,662
Ordinary shares, treasury shares and additional paid-in capital	126,232	137,115	139,620	138,684	140,243
Other Financial Data:					
Net cash inflows from operating activities	9,523	14,756	14,129	7,785	8,420
Net cash outflows from investment activities	(34,669)	(23,520)	(25,228)	(3,597)	(15,981)
Net cash inflow/(outflow) from financing activities	(4,433)	5,922	946	1,410	(70)

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RISK FACTORS

You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making an investment in our ordinary shares. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that certain parts of our operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any of these risks. The trading price of our ordinary shares and/or our ADSs could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

If the markets for consumer electronics, computers, industrial or communications products do not grow substantially or even decrease, our net sales may be harmed.

Our business focuses on designing, developing and marketing high performance integrated circuits for manufacturers of products for the consumer electronics, computer, industrial and communications markets. As many of the leading suppliers of these products have an intermediary manufacture their products or those portions of their products containing our components, we currently derive substantially all of our product revenues from sales to these intermediaries. We also have targeted and are designing products for other consumer electronics, computer, industrial and communications applications such as LCD monitors and LCD televisions, Internet security, mobile phones, GPS and portable media players, such as portable DVD players. We believe that the important factors driving growth in these markets have been the growing popularity of thinner displays and mobile computing, and the emergence and continued development of the Internet and wireless communications networks. If demand for products using LCDs declines, or does not grow as quickly as we anticipate, our customers may experience lower demand for their products that use our products, which may cause our net sales to suffer. If mobile computing does not continue to grow in popularity and the demand for notebook computers declines, or does not grow as quickly as we expect, our intermediaries or OEM customers may experience lower demand for notebook computers that use our products, and our net sales may suffer. If the growth in the use of the Internet and wireless communications networks declines, or does not grow as quickly as we anticipate, our customers may experience lower demand for the electronic devices that use our products, and our net sales may suffer. We cannot be certain that the markets for these products will continue to grow as rapidly as they have in the past or that a significant slowdown in these markets will not occur.

In addition, we have experienced, and may experience in the future, shortages of LCDs and semiconductors caused by industry market trends or by natural disasters, such as earthquakes, that are outside of our control. These shortages may increase the costs of components used in those products containing our products. This may cause an increase in the cost of such products, thus lowering the demand for such products.

Finally, the semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns and wide fluctuations in supply and demand. This has caused significant variances in product demand, production capacity and rapid erosion of average selling prices. Industry-wide fluctuations in the future could result in pricing pressure on our products as well as lower demand for our products. If such fluctuations were to occur, they could materially adversely affect our operating margins and net sales.

Fluctuations in our quarterly operating results due to factors such as changes in the demand for electronic devices that utilize our products could adversely affect the trading price of our ordinary shares and/or our ADSs.

We believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful indicators of our future results of operations, and they should not be relied upon as an indication of our future performance. If our quarterly operating results fail to meet the expectations of securities analysts, the trading

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price of our ordinary shares and/or our ADSs could be adversely affected. Our quarterly operating results have varied substantially in the past and may vary substantially in the future depending upon a number of factors described below and elsewhere in this Risk Factors section, including many factors that are beyond our control. These factors include:

- changes in demand for devices that use our products;
- market conditions in the semiconductor industry and the economy as a whole;
- the timing and cancellation of customer orders;
- the level of orders received that can be shipped in a quarter;
- the availability of third party semiconductor foundry, assembly and test capacities;
- fluctuations in manufacturing yields;
- delays in the introduction of new products;
- changes in the mix of sales of higher margin products and lower margin products;
- seasonal changes in demand during the year-end holiday season for devices that use our products; and
- the amount of legal and other expenses incurred in a particular quarter.

In addition, the trading price of our ordinary shares and/or our ADSs may be affected by factors such as: significant price and volume fluctuations in our ordinary shares and/or our ADSs and financial markets in the U.S. and other countries, as well as relatively thin trading volume of our ordinary shares and/or our ADSs on Nasdaq and the HKSE, respectively. Further, the trading markets for our ordinary shares and/or our ADSs are affected by the research reports that securities or industry analysts publish about us or our business. We do not have control over such coverage. If one or more analysts were to downgrade our ordinary shares and/or our ADSs, the price of our ordinary shares and/or our ADSs may decline. If one or more analysts cease coverage of our company or does not regularly publish reports on us, we may lose visibility in the financial markets, which could cause the price of our ordinary shares and/or our ADSs or trading volume to decline.

If orders for our products are cancelled or deferred, our net sales, operating margins and net income could be substantially reduced.

Orders for our products can be cancelled or deferred with little notice from and without significant penalty to our customers. A significant portion of our net sales in any financial reporting period depends on orders booked and shipped in that period. If a large amount of orders placed is cancelled or deferred, our net sales in that period could be substantially reduced. Since we do not have significant non-cancellable backlog, we typically plan our production and inventory expenses based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. In particular, in response to anticipated lengthy lead times, which in the past have been as much as ten weeks or more, to obtain inventory and materials from our suppliers, we place orders with these suppliers in advance of anticipated customer demand, which can result in excess inventory if the expected orders fail to materialize. We also expect to increase our expenses for personnel and new product development. It is difficult for us to reduce our production, inventory, personnel and new product development expenses quickly in response to any shortfalls in net sales resulting from cancelled or deferred orders. As a result, any cancellation or deferral of orders would not only harm our net sales, it would also likely have a disproportionately adverse effect on our operating margins and net income.

A substantial portion of our net sales is generated by a small number of customers. If any of these customers delays or reduces its orders, our net sales and earnings may be harmed.

Historically, a relatively small number of customers has accounted for a significant portion of our net sales in any particular period. We have no long-term volume purchase commitments from any of our significant customers. We cannot be certain that our current customers will continue to place orders with us, that orders by

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existing customers will continue at the levels of previous periods or that we will be able to obtain orders from new customers. In addition, some of our customers, acting as intermediary manufacturers, supply products to end-market purchasers, and any of these end-market purchasers could choose to reduce or eliminate orders for our customers products. This would in turn lower our customers orders for our products.

In 2004, one customer accounted for 10% or more of our net sales (17.5%) and our top five customers accounted for 46.5% of our net sales. In 2003, one customer accounted for 10% or more of our net sales (13.5%) and our top five customers accounted for 41.2% of our net sales. In 2002, two customers accounted for 10% or more of our net sales (18.6% and 15.9%, respectively) and our top five customers accounted for 57.0% of our net sales. The variations in sales to these customers as a percentage of our total net sales have been caused by a number of factors, some of which were outside our control. We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our net sales. The reduction, delay or cancellation of orders from one or more of our significant customers would have a disproportionately negative impact on our results of operations.

If we cannot compete effectively against new and existing competitors, our net sales and gross margins could be harmed.

Our ability to compete successfully in the market for integrated circuit products depends on factors both within and outside our control, including: our success in designing and subcontracting the manufacture of new products that implement new technologies and satisfy our customers needs; the performance of our products across a variety of parameters such as reliability and cost efficiency; the price of our products and those of our competitors; our ability to control production costs; and the features of our competitors products.

We believe our principal competitors include Linear Technology, Maxim Integrated Products, and Texas Instruments. For example, in the computer end-market, we compete primarily with (i) Texas Instruments in CardBus products and battery charger products for notebook computers and DC/DC converters for systems and microprocessor support, (ii) Maxim Integrated Products in battery charger products for notebook computers and (iii) Linear Technology in DC/DC converters for systems and microprocessor support. We also compete with other competitors such as (i) Microsemi in CCFL inverters products for the backlighting of LCD displays in the computer, consumer electronics and industrial end-markets, (ii) Intersil in DC/DC converters for systems and microprocessor support and (iii) Ricoh in CardBus products for notebook computers. There is also competition from the internal integrated circuit design and manufacturing capabilities of some of our existing and potential customers, such as Toshiba and Fujitsu. In addition to these competitors, other integrated circuit companies may decide to enter the market with mixed-signal integrated circuit products that compete with our products or incorporate functions similar to those provided by our products.

Some of our competitors, such as Texas Instruments, have greater name recognition, their own manufacturing capabilities, significantly greater financial and technical resources, and the sales, marketing and distribution strengths that are normally associated with large multinational companies. These competitors may also have pre-existing relationships with our customers or potential customers. These competitors may be able to introduce new technologies more quickly, address customer requirements more rapidly and devote greater resources to the promotion and sale of their products than we do. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products themselves or obtain third-party manufacturing capability when we are unable to do so.

If we do not develop and introduce new products in a timely manner, our net sales and gross margins could be harmed.

Our success depends upon our ability to develop and introduce new products selected for design into products for the consumer electronics, computer, industrial and communications markets. If we are unable to develop new products in a timely manner, our net sales will suffer. In addition, because our gross margins typically decline over the life cycle of our products as a result of competitive pressures and voluntary pricing arrangements, any failure to develop new products in a timely manner will likely cause our gross margins to

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decline. The development of our new products is highly complex, and from time to time we have experienced delays in the introduction of new products of as much as eight-to-twelve weeks or more. Successful product development and introduction of new products depend on a number of factors, including the following:

- accurate new product definition;
- timely completion of new product designs;
- achievement of manufacturing yields;
- timely and cost-effective production of new products; and
- timely delivery of new third-party supplied products used as key components in devices that incorporate our products.

We often incur significant expenditures in the development of a new product without any assurance that it will be selected for design into our customers products. If we incur such expenditures but fail to be selected, our results of operations will be adversely affected and may fluctuate significantly from period to period. Furthermore, even if our products were selected for design into our customers products, we cannot be certain that these products will be commercially successful or that we will benefit from any associated sales.

It is difficult to evaluate our future prospects, and we cannot assure you that we will not incur future losses.

Our past results cannot be relied upon to predict our future performance. We incurred net losses in each year prior to the year ended December 31, 1999. We then experienced significant quarter-to-quarter sales growth in each of the years ended December 31, 2001, 2002 and 2003. However, in the first quarter ending March 31, 2004, in the third quarter ending September 30, 2004 and in the first quarter ending March 31, 2005, we experienced a decrease in net sales compared to the previous quarter. Our net sales are subject to fluctuation from quarter to quarter, our previous overall growth may not continue, and we may not be able to sustain or increase profitability in the future. We anticipate that our expenses will increase substantially in the foreseeable future as we continue to develop and seek to protect our technology and expand our product offerings. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our net sales sufficiently to offset our increased expenses. If we fail to increase our net sales to keep pace with our increased expenses, we may again experience net losses in future periods, which could cause the trading price of our ordinary shares and/or our ADSs to decline.

If we cannot adapt our product offerings to respond to rapid technological changes, our net sales will be harmed.

The markets for consumer electronics, computer, industrial and communications products, and the components used in these products, are characterized by rapidly changing technology and very frequent new product introductions by our direct customers and our competitors. For example, the microprocessor, display and battery technologies with which our products inter-operate change very rapidly. Although our products integrate analog and mixed-signal circuits and therefore have substantially longer life-cycles than digital integrated circuits, we must still update our products or introduce new ones on a regular basis. If we do not respond in a timely manner to technological changes and new product introductions by our direct customers and competitors, we will be unable to maintain and grow our product sales. In addition, the emergence of significantly more efficient or cost-effective microprocessor, display and battery technologies could lessen the need for the power management functionality of our products, which would harm our net sales.

We depend on third parties to manufacture, assemble and test our products and, if they are unable to do so, our ability to ship products and our business and results of operations will be harmed.

We do not own or operate the integrated circuit fabrication facilities that manufacture the products we design. Four foundries, CSMC, TSMC, UMC and X-FAB, manufactured most of the integrated circuit products that we sold in 2004. These foundries manufacture integrated circuit products for us according to purchase

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orders. We do not have a guaranteed level of production capacity at any of these foundries, and any one or more could raise prices without notice. Although we provide the foundries with rolling forecasts of our production requirements, the ability of each foundry to provide wafers to us is limited by the foundry s available capacity. The term wafers refers to slices of silicon used to manufacture integrated circuits, and it is one of the principal raw materials in our products. Our foundries could choose to prioritize capacity for other customers, particularly larger customers, reduce or eliminate deliveries to us on short notice or increase the prices they charge us. Accordingly, we cannot be certain that these foundries will allocate sufficient capacity, if any, to satisfy our requirements particularly during any industry-wide capacity shortages. In addition, if any of these foundries were unable to continue manufacturing our products in the required volumes at acceptable quality, yields and costs or in a timely manner, our business and results of operations would be seriously harmed.

There are other significant risks associated with our reliance on these outside foundries, including the disruption in our ability to ship products caused by the length of time, as much as six-to-12 months, required for us to find alternative foundries for existing or new products; the reduction or elimination of deliveries to us by these outside foundries caused by a sudden increase in demand for semiconductor devices or a sudden reduction or elimination of manufacturing capacity by any existing manufacturers of semiconductor devices; the unavailability of, or delays in obtaining access to, key process technologies used by these foundries; and the susceptibility of our outside foundries to production interruptions resulting from natural disasters, such as the interruptions experienced in Taiwan in the past due to earthquake activity. Any of these events could cause our outside foundries to reduce or eliminate deliveries to us and cause disruption in our ability to ship products to our customers which could negatively affect our business and results of operations.

We also rely on independent subcontractors to assemble and test substantially all of our integrated circuit products. We do not have long-term agreements with any of these subcontractors but obtain services from them primarily on a purchase order basis. Our reliance on these subcontractors involves risks such as reduced control over delivery schedules, quality assurance and costs. These risks could result in product shortages or increase our costs of manufacturing, assembling or testing our products. If these subcontractors were unable or unwilling to continue to provide assembly and test services and deliver products at acceptable quality, yields and costs or in a timely manner, our business would be seriously harmed. We would also have to identify and qualify substitute subcontractors, which would be time consuming and costly and could result in unforeseen operational difficulties.

Sales of our products could decline if our products fail to support evolving industry standards.

Our net sales are derived from sales of integrated circuit products that are components of electronic devices built to industry standards and widely accepted specifications. For example, the hardware specification for the voltage of most notebook computers is currently either 3.3 or 5.0 volts and the software used to control the power management functions of many notebook computers conforms to the industry s Advanced Configuration Power Interface specification. Our products must be designed to conform to these standards and specifications in order to achieve market acceptance. Technology standards and specifications continually evolve, and we may not be able to successfully design and manufacture new products in a timely manner that conform to these new standards or specifications. Additionally, new products we develop to conform to new specifications may not be accepted in the market.

Defects in our products could result in significant costs and could impair our ability to sell our products.

Detection of any significant defects in our products may result in, among other things, loss of or delay in market acceptance and sales of our products, diversion of development resources, injury to our reputation and increased service and warranty costs. Because our products are complex, they may contain defects that can be detected at any point in a product s life cycle. These defects could harm our reputation, which could result in significant costs to us and could impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could materially adversely affect our results of operations. While we continually test our products for defects and work with customers through our customer support services to

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identify and correct problems, defects in our products may be found in the future. Testing for defects is complicated in part because it is difficult to simulate the highly complex environments in which our customers may use our products. In the past, we have discovered defects in our products and have experienced delays in the shipment of our products. These delays have principally related to new product update releases. To date, none of these delays has materially affected our business. However, product defects or delays in the future could be material, and could adversely affect our reputation and our ability to sell our products.

We have substantial international operations that expose us to risks specific to the countries in which we operate.

As of June 30, 2005, a substantial portion of our operations, approximately 74% of our employees, and most of the third parties we use to manufacture, assemble and test our products were located in Japan, Korea, the PRC, Singapore and Taiwan. We expect our international operations to grow and international sales to continue to account for a substantial portion of our net sales.

We are subject to risks specific to our international business operations, including:

- the risk of supply disruption, production disruption or other disruption arising from the outbreak of any severe communicable disease or other widespread health problems;
- the risk of potential conflict and further instability in the relationship between Taiwan and the PRC;
- risks related to international political instability and to the recent global economic turbulence and adverse economic circumstances in Asia, such as in Japan and Korea;
- unpredictable consequences on the economic conditions in the U.S. and the rest of the world arising from terrorist attacks, such as the attacks of September 11, 2001 in the U.S. and other military or security operations, particularly with regard to the conflicts in the Middle East involving Iraq;
- unexpected changes in regulatory requirements or legal uncertainties regarding tax regimes, such as the change to the tax code of Taiwan in 2001 that resulted in a higher income tax rate on our retained earnings;
- tariffs and other trade barriers, including current and future import and export restrictions;
- difficulties in staffing and managing international operations;
- adverse effects of changes in foreign currency exchange rates on our results of operations, in particular the exchange rates between the U.S. dollar, the Renminbi (the legal currency of the PRC) and the New Taiwan dollar (the legal currency of Taiwan), limited ability to enforce agreements and other rights in foreign countries;
- changes in labor conditions; longer payment cycles and greater difficulty in collecting accounts receivables;

- burdens and costs of compliance with a variety of foreign laws;
- expropriation of private enterprises; and
- reversal of the current policies (including favorable tax and lending policies) encouraging foreign investment or foreign trade by our host countries.

In addition, the geographical distances between Asia, the U.S., the Cayman Islands and Europe also create a number of logistical and communication challenges. Although we have not experienced any serious harm in connection with our international operations, we cannot assure you that such problems will not arise in the future.

In addition, our reporting currency is the U.S. dollar. However, a significant portion of our operating expenses is denominated in currencies other than the U.S. dollar, primarily the New Taiwan dollar and the Renminbi. As a result, appreciation or depreciation of other currencies in relation to the U.S. dollar could result in material transaction or translation gains or losses that could adversely affect, or cause fluctuations in, our results of operations. We do not currently engage in currency hedging activities.

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Our ability to manage growth will affect our ability to achieve and maintain profitability.

Our ability to maintain profitability will depend in part on our ability to implement and expand operational, customer support and financial control systems and to train and manage our employees. We may not be able to augment or improve existing systems and controls or implement new systems and controls in response to future growth, if any. In addition, we will need to expand our facilities to accommodate the growth in our personnel. Any failure to manage growth could divert management attention from executing our business plan and adversely affect our ability to expand our business successfully. Our historical growth has placed, and any further growth is likely to continue to place, a significant strain on our resources. In order to grow successfully, we will need to maintain close coordination among our executive, engineering, accounting, finance, marketing, sales, operations and customer support organizations, particularly in light of the internationally dispersed nature of our operations.

If we fail to protect our intellectual property rights, competitors may be able to use our technology or trademarks, and this could weaken our competitive position, increase our costs, reduce our margins and reduce our net sales.

Our success is heavily dependent upon our proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology and prevent competitors from using our technology in their products. These laws and procedures provide only limited protection. Our patents may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringement.

Our ability to sell our products and prevent competitors from misappropriating our proprietary technology and trade names is dependent upon protecting our intellectual property. Despite the precautions we take, unauthorized third parties may copy aspects of our current or future products or obtain and use information that we regard as proprietary. Additionally, our competitors may independently develop similar or superior technology. Policing unauthorized use of software, circuit design or semiconductor design is difficult and some countries laws do not protect our proprietary rights to the same extent as the laws of the United States, Hong Kong and other developed countries. We have in the past and currently have initiated litigation to protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources, and could also result in a decision that our intellectual property is invalid or unenforceable and, could adversely affect our business, future results of operations and financial condition. See the section headed Business Intellectual Property in this prospectus.

We will need to recruit and retain qualified personnel to grow our business successfully.

Our future success will depend on our ability to attract and retain experienced sales, research and development, marketing, customer support and management personnel. If we do not attract and retain these personnel, our ability to grow our business, sell our products, enter new markets and increase our share of existing markets could be harmed. There can be no assurance that we will be successful in hiring for these positions in the near future. Our sales strategy requires that we hire additional direct sales persons and independent sales representatives in our major markets. Moreover, our independent sales representatives and direct sales personnel must market our products effectively and be qualified to provide timely and cost-effective customer support and service. If they are unable to do so or if we are unable to expand these organizations, this could harm our ability to increase our net sales and limit our ability to sell our products or expand our market share. Competition for qualified personnel in digital, analog and mixed-signal integrated circuit design is intense. In the past, we have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel. As we intend to expand the scope of our international operations, this will require us to attract experienced management, research and development, marketing, sales and customer support personnel for our international offices.

We expect competition for qualified personnel to remain intense, and we may not succeed in attracting or retaining such personnel. In addition, new employees generally require substantial training in our design methodology, design flow and technology, which in turn requires significant resources and management attention. There is a risk that, even if we invest significant resources in attempting to attract, train and retain

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qualified personnel, we will not be successful in our efforts. In that event, our costs of doing business would increase without a corresponding increase in net sales.

Our success will depend to a significant extent on the continued service of our executive officers, including Sterling Du, our chief executive officer and chairman of our board, and other key employees, including key sales, consulting, technical, marketing and legal personnel. If we lose the services of one or more of our executives or key employees, our business and ability to implement our business objectives successfully could be harmed, particularly if one or more of our executives or key employees decides to join a competitor or otherwise compete directly or indirectly with us.

Our transfer pricing procedures may be challenged, which may subject us to higher taxes and adversely affect our earnings.

Transfer pricing refers to the prices that one member of a group of affiliated corporations charges to another member of the group for goods, services or the use of intellectual property. If two or more affiliated corporations are located in different countries, the laws or regulations of each country generally will require that transfer prices be the same as those charged by unrelated corporations dealing with each other at arm s length. If one or more of the countries in which our affiliated corporations are located believe that transfer prices were manipulated by our affiliated corporations in a way that distorts the true taxable income of the corporations, the laws of such countries could require us to redetermine transfer prices and thereby reallocate the income of our affiliate corporations in order to reflect such income clearly. Any reallocation of income from one of our corporations in a lower tax jurisdiction to an affiliated corporation in a higher tax jurisdiction would result in a higher overall tax liability to us. Moreover, if the country from which the income is being reallocated does not agree to the reallocation, the same income could be subject to taxation by both countries.

We have adopted transfer pricing agreements with our subsidiaries located in the United States, the PRC, Taiwan, Japan and Singapore to regulate inter-company transfers. A transfer pricing agreement is a contract for the transfer of goods, services or intellectual property from one corporation to a related corporation that sets forth the prices that the related parties believe are those charged by unrelated corporations dealing with each other at arm s length. We have entered into these types of agreements because a portion of our assets, such as intellectual property developed in our U.S. and foreign subsidiaries, is transferred among our affiliated corporations. In such agreements, we have determined transfer prices that we believe are the same as the prices that would be charged by unrelated parties dealing with each other at arm s length. In this regard, we are subject to risks not faced by other companies with international operations that do not create inter-company transfers. If the taxing authorities of any jurisdiction, including Taiwan and the United States, were to challenge these agreements successfully or require changes in our transfer pricing practices, we could become subject to higher taxes and our earnings would be adversely affected. We believe that we operate in compliance with all applicable transfer pricing laws in all of the jurisdictions in which we operate. However, there can be no assurance that we will continue to be found to be operating in compliance with transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes to our transfer pricing practices or operating procedures. Any determination of income reallocation or modification of transfer pricing laws could result in an income tax assessment of the portion of income deemed to be derived from the taxing jurisdiction that so reallocates the income or modifies its transfer pricing laws.

Third parties have asserted, and in the future could assert, that our products infringe their intellectual property rights. These claims could harm our ability to sell our products and expose us to litigation.

As is typical in the semiconductor industry, we have from time to time received communications from third parties asserting patents that cover certain of our technologies or products and alleging infringement of certain of their intellectual property rights. We may receive similar communications in the future. In the event any third party were to make a valid claim against us or our customers, we could be enjoined from selling selected products such as our inverter or power products or could be required to pay royalties to third parties. Third-party infringement claims, with or without merit, have been and could continue to be time consuming, result in substantial diversion of our resources and potentially significant litigation costs, including costs related to any

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damages we may owe, cause product shipment delays or require us to enter into license agreements. Such license agreements may not be available on acceptable terms, or at all. Any such event could seriously harm our business and our results of operations. We expect that semiconductor companies will increasingly be subject to infringement claims as the number of products and competitors in the semiconductor industry grows. See the section headed Business Intellectual Property in this prospectus.

From time to time, in the normal course of business, we agree to indemnify third parties with whom we enter into contractual relationships, including customers and parties to other transactions with us, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to our limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. To date, we have not made any payments under these obligations.

Until all outstanding litigation is resolved, we will continue to incur substantial legal expenses that vary with the level of activity in the legal proceedings. This level of activity is not entirely within our control as we may need to respond to legal actions. Consequently, we may find it difficult to predict the legal expenses for any given period, which will impair our ability to forecast our results of operations for that period. It is likely that these expenses will increase leading up to and during our trials scheduled for November 2005, December 2005, August 2006 and September 2006.

Monolithic Power Systems, or MPS, has alleged that certain of our products infringe on one of its patents and a continuation of that patent. On May 28, 2004, the U.S. District Court for the Northern District of California granted our motion for summary judgment that MPS lacked evidence of damages. On July 18, 2005, we received a jury verdict that all claims asserted by MPS were invalid. The verdict is subject to post-trial motions by MPS to overturn the verdict, entry of judgment by the court and possible subsequent appeal by MPS. Given the inherent uncertainties in litigation, there cannot be any assurance that we will prevail in any particular litigation matter, and we cannot predict the outcome of any such litigation. If any party were to prevail in its claims against us, our rights to certain patents and results of operations could be materially adversely affected. In any litigation arising from claims that we infringe on the intellectual property rights of others, an adverse result could involve an injunction to prevent the sales of a material portion of our products, and a reduction or the elimination of the value of related inventories, any of which could have a material adverse effect on our net sales, results of operations and financial condition. This risk factor only provides a brief discussion of the legal proceedings in which we are involved and related events. You are advised to read the descriptions of our material litigation in the section headed Business Intellectual Property in this prospectus.

We may be subject to lawsuits from third parties.

We are a defendant or plaintiff in actions that arise in the normal course of business as well as actions that arose as counterclaims in response to our patent infringement actions, including actions for antitrust, unfair competition and interference. While we currently believe the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, overall trends in results of operations, or liquidity, the ultimate outcome of any litigation or claim is uncertain, and the impact of an unfavorable outcome could be material to us.

We have incurred, and continue to incur, significant costs with respect to corporate governance and financial reporting compliance.

To comply with the requirements of the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities Exchange Commission, or SEC, and adopted by the Nasdaq in response to Sarbanes-Oxley, we have made changes to our financial reporting, securities disclosure and corporate governance practices. We may incur increased legal and financial compliance costs due to these new or revised rules,

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regulations, and listing requirements and management time and resources may be re-directed to implement our compliance initiatives. These rules may make it more difficult for us to attract and retain qualified executive officers and members of our board, as well as make it more costly to obtain liability insurance coverage for our officers and directors.

In particular, the Sarbanes-Oxley Act requires that, among other things:

- our chief executive officer and chief financial officer personally certify our annual report on Form 20-F which is filed with the SEC each year, which certification includes statements as to the accuracy and fair presentation of the report s disclosure, the establishment and maintenance of controls and procedures related to our disclosure and issues regarding our internal accounting controls;
- we refrain from making most types of loans to our officers and directors after the adoption of that Act or from making any material modifications to loans that existed prior to the adoption of the Act;
- our audit committee
  - pre-approve all audit and non-audit services provided by our outside auditor except for de minimis services;
  - be directly responsible for the appointment, compensation and oversight of the work of our outside auditor;
  - establish procedures for the receipt and treatment of complaints received by us regarding accounting, controls or auditing matters and any confidential submissions by our employees regarding questionable accounting or auditing;
  - comprise independent directors, as defined under the Sarbanes-Oxley Act and applicable Nasdaq rules; and
- we furnish a report in certain SEC filings in the future pursuant to Section 404 of the Sarbanes-Oxley Act, as discussed in the following risk factor.

The Nasdaq has also implemented new rules following the adoption of the Sarbanes-Oxley Act, including a rule which requires that a majority of our board must be independent (within the meaning of the Nasdaq s rules).

If we fail to maintain an effective system of internal controls, we may not be able to report our financial results accurately. As a result, we may fail to meet our reporting obligations and current and potential holders of ADSs and/or ordinary shares could lose confidence in our financial reporting, which could adversely affect the trading price of our ADS and/or ordinary shares.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports or prevent fraud, our results of operations could be misstated, our reputation may be harmed and the trading price of our ADSs and/or ordinary shares could be adversely affected. In connection with the audit of our financial statements for the years ended December 31, 2002, 2003 and 2004, in May 2005 our independent registered public accounting firm reported to our audit committee a matter that was a reportable condition in our internal controls as defined in standards established by the American Institute of Certified Public Accountants. In general, reportable conditions are significant deficiencies in a company s internal controls that, in the auditor s judgment, could adversely affect the ability to record, process and report financial data consistent with the assertions of management in the financial statements. During 2005, we devoted significant resources to remediate and improve our internal controls. We believe that these efforts have remediated the concerns that gave rise to the reportable condition. However, we cannot be certain that our controls over our financial processes and reporting will continue to be adequate in the future. Any failure of our internal controls over financial reporting could cause us to fail to meet our reporting obligations, including those with the SEC and the HKSE.

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In addition, under Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our annual report on Form 20-F for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. Such a report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Such report must also contain a statement that our auditors have issued an attestation report on management s assessment of such internal controls. We are still performing the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging.

During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that such internal control is effective. If we were unable to assert that our internal control over financial reporting is effective (or if our auditors were unable to attest that our management s report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the price of our ordinary shares and/or our ADSs.

Changes in accounting standards for stock option plans may impact our results of operations and our ability to use stock options to recruit, retain and motivate employees.

The Financial Accounting Standards Board has published revisions to Statement of Financial Accounting Standards No. 123, or SFAS 123R, that require all public entities to treat the value of stock options granted to employees as an expense. As a public entity under SFAS 123R, we are required to record, as of the first annual reporting period beginning after June 15, 2005, a compensation expense equal to the value of each stock option granted. This expense would likely be recognized over the vesting period of the stock option. The requirement to expense stock option grants reduces the attractiveness of granting stock options because the additional expense associated with these grants may adversely affect our results of operations. Accordingly, we may not be able to attract and retain key personnel if any future adverse effects on our profitability resulting from the application of SFAS 123R compel us to reduce the scope of our employee stock option plans. In addition, as a result of the requirement to adopt SFAS 123R to expense stock option grants beginning with the first fiscal year after June 15, 2005, our future profitability may be reduced.

RISKS RELATING TO THE SEMICONDUCTOR INDUSTRY

The demand for integrated circuits is dependent on the performance of the industries in which they are employed, which is subject to factors beyond the control of any integrated circuit manufacturer or designer.

The demand for integrated circuits is generally cyclical in nature as such demand is subject to, among other things, fluctuations in demand for the end applications in which they are used. Integrated circuits are used in a diverse range of products such as LCD monitors and LCD televisions, notebook computers, Internet security devices, mobile phones, GPS and portable media players. Market conditions for these end products may be volatile. The semiconductor industry has, at various times, experienced significant economic downturns characterized by production overcapacity, reduced product demand, and a rapid erosion of average selling price. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand. As a result, periods of overcapacity in the industry have frequently followed periods of increased demand and we expect this pattern to be repeated in the future. In addition, future downturns in the markets for consumer electronics, computers, industrial and communication products in which integrated circuits are used may be severe and could seriously harm our business or delay the launch of our new products. We cannot assure you that we will be able to anticipate future market downturns in these end markets or that any downturn would not have a material adverse effect on our financial condition or results of operations. For more information on the power management integrated circuits market industry as a whole, see the section headed Industry Overview in this prospectus.

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The price of integrated circuits declines over the product life cycle due to technology advances and we may not be able to respond to rapid technological changes.

The semiconductor industry is characterized by rapidly changing technology and the frequent introduction of new products. As a result, the price of each integrated circuit product typically declines over its product life cycle, reflecting product obsolescence, and decreased demand as customers shift to more advanced products and increased competition as more integrated circuit producers are able to produce similar products in larger numbers. The price decline with respect to a product generally accelerates when the next evolution of that product is accepted by the market and no new applications can be found for such product. Therefore, our success depends on our continued ability to deliver innovative products that will be accepted by the market. Failure to do so on a timely basis and with minimal disruption to production and delivery may adversely affect our results of operations and financial condition. If we do not continually produce advanced products that will be accepted by the market, the average selling price of our products will decrease and our net sales of such products may also decrease as our customers may purchase a greater proportion of products from our competitors.

Integrated circuit producers typically have lengthy and expensive development cycles.

The sales cycle for integrated circuit products is long and requires the investment of significant resources with each potential customer without any assurance of sales. Using our operations as an example, it can take six to 24 months or more for us to design, develop and ship a product to our customers. At any time during or after this development cycle, we work with the customer for inclusion of our product into the customer s product. The customer s product design development cycle can take six to 18 months or more. Once both of these cycles are complete, it usually takes an additional three-to-nine month period before a brand owner commences volume production of end products that incorporate our finished products. This fairly lengthy development cycle creates the risk that customers will decide to cancel or change specifications for their products. Any changes in the specifications for products may lead to increased production time and costs.

The manufacturing of integrated circuits is subject to the availability of raw materials.

The supply of integrated circuits is dependent on the consistent supply of raw materials to contract manufacturers. These raw materials have historically been subject to fluctuations in supply. The unavailability of raw materials to contract manufacturers, for whatever reason, may result in a reduction in supply of integrated circuits the average cost price of each integrated circuit, either of which may have an adverse effect on our results of operations.

Many of our integrated circuit contract manufacturers and our customers are vulnerable to natural or man-made disasters and other events outside of our control.

A substantial number of integrated circuit contract manufacturers and our customers are located in Taiwan. As a result, many integrated circuit producers are dependent on the infrastructure supporting the companies in Taiwan and their ability to avoid damages from earthquakes, floods, power losses and similar events. It is not certain whether the general infrastructure in Taiwan is sufficient or adequate to avoid or mitigate the effects of these disruptive events.

Taiwan is susceptible to earthquakes and typhoons. In recent years, it has experienced severe earthquakes and typhoons that caused significant property damage and loss of life. These earthquakes and typhoons caused damage to production facilities and adversely affected the operations of many integrated circuit and integrated circuit-related companies. There can be no assurance that future earthquakes and typhoons will not occur and result in major damage to the facilities of our customers or contract manufacturers. If we are not able to replace capacity from other contract manufacturers or our orders from customers decrease as a result of such event, there may be a material adverse effect on our results of operations.

A decrease in demand or the selling price of end-use products of integrated circuit products may adversely affect demand and pricing for our products and may result in a decrease in our net sales and earnings.

A significant percentage of our net sales is derived from customers who purchase integrated circuits for consumer electronics, personal computers and communications products. Any significant decrease in the demand

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for such end-use products may decrease the demand for our products and adversely affect our results of operations. In addition, a decline in the price of such end-use products could place significant downward pressure on the prices of components, including our integrated circuits, that are used in such end-use products. If the average selling price of such products decreases, the pricing pressure on our products could reduce our gross margins.

RISKS RELATING TO CONDUCTING OPERATIONS IN THE PRC

A slowdown in the growth of the PRC s economy may affect our growth and profitability.

Our business is increasingly dependent upon the economy and business environment in the PRC. However, the growth of the PRC s economy has been uneven across geographic regions and economic sectors. Several years ago, the PRC s economy also experienced deflation, which may recur in the future. There can be no assurance that the growth of the PRC s economy will be steady or uniform. In addition, a slowdown in the growth of the PRC s economy may affect our growth and profitability.

Changes in the PRC s political and economic policies could affect our business.

A significant portion of our international operations is conducted in the PRC. Accordingly, our results of operations, financial condition and prospects are, to an extent, subject to the economic, political and legal climate of the PRC. Since 1978, the PRC government has undertaken various reforms of its economic systems and, as a result, the PRC s economy has transitioned from a planned economy to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the PRC government have had a positive effect on the economic development of the PRC, we cannot assure you that future economic reforms will not have an adverse effect on our business, financial condition or results of operations.

In addition, the PRC s economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD. These differences include economic structure, level of government involvement in the economy, level of development, level of capital reinvestment, control of foreign exchange, methods of allocating resources and the balance of payments position. As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to those of the OECD member countries.

Limits placed on technology exports from certain countries and imports into the PRC could substantially harm our business and results of operations.

Our growth depends on our ability to export process know-how and other technologies from certain countries and import such technologies into the PRC. Any restrictions placed on the export or import of technologies could adversely affect our growth and substantially harm our business. In particular, the United States requires us to obtain licenses to export certain technologies from it. If we are unable to obtain such export licenses in a timely manner, our business and results of operations could be adversely affected.

In July 1996, 33 countries ratified the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, or the Wassenaar Arrangement, which established a worldwide arrangement to restrict the transfer of conventional arms and dual-use goods and technologies. Under the terms of the Wassenaar Arrangement, the participating countries, including the United States, have restricted exports of technology, equipment, materials and spare parts that potentially may be used for military purposes in addition to their commercial applications to the PRC. While the U.S. no longer controls the export of general purpose semiconductors or microprocessors to civil end users in China, the equipment used to manufacture sophisticated semiconductors is tightly controlled for national security reasons by the U.S. and other signatories of the Wassenaar Arrangement. To the extent that the technology, equipment, materials or spare parts used in our manufacturing processes are or become subject to the restrictions of the Wassenaar Arrangement, our ability to procure these products and technology could be impaired. Accordingly, our business and results of operations

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could be adversely affected. There could also be a change in the export license regulatory regime in the countries from which we purchase equipment, materials and spare parts that could delay our ability to obtain export licenses for the equipment, materials, spare parts and technology we require to conduct our business. There can be no assurance going forward that such technology transfers will comply with export control or licensing laws of the U.S. or other countries.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities and overseas investments by PRC residents may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

In January 2005, the State Administration of Foreign Exchange, or the SAFE, issued certain regulations, or the SAFE Regulations, to regulate offshore investment activities by PRC residents who directly or indirectly establish or control overseas entities. The regulations are aimed at transactions by PRC residents that move their PRC assets into offshore vehicles controlled by them, and to prohibit PRC residents from engaging in transactions whereby shares in PRC companies or PRC properties owned by PRC residents are exchanged for shares in offshore companies or offshore properties owned by them without confirmation from the SAFE. The SAFE intends to monitor the activities of these offshore investment activities on an on-going basis, including any further capitalizations, shareholder loans, profit repatriation, and reinvestment of profits.

In April 2005, the SAFE issued supplemental regulations that require PRC residents to register their interests in overseas entities with the SAFE and file amendment registrations if material events, such as changes in share capital, transfers of shares, mergers and acquisitions, spin-offs or divestitures or the use of PRC assets as security for offshore obligations, occur with respect to their overseas investments. The regulations further provide that failure to comply with the registration or amendment procedures may result in a restriction on the ability of a PRC company to obtain or renew foreign exchange registration certificates and to repatriate their profits offshore.

Although the SAFE Regulations are currently not applicable to us, we cannot be certain how the SAFE Regulations will be interpreted or implemented in the future. Accordingly, we cannot predict their impact on our future business operations or strategy in the PRC. In addition, if we decide to acquire a PRC company, we cannot assure you that we will be able to complete all necessary approval, filing and registration requirements successfully under the SAFE Regulations. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

The discontinuation of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Our PRC subsidiaries currently enjoy preferential tax treatment, in the form of reduced tax rates or tax holidays, provided by the PRC government or its local agencies or bureaus. Our subsidiary in Shanghai is subject to a 15% preferential enterprise income tax rate and certain business tax rebates (instead of the standard 33% enterprise income tax rate and 5% business tax rate) and our subsidiary in Beijing is subject to a 15% preferential enterprise income tax rate, with an income tax exemption for the years ended December 31, 2001, 2002 and 2003 and a 7.5% preferential enterprise income tax rate for the years ended December 31, 2004, 2005 and 2006. Until August 20, 2005, our subsidiary in Wuhan was subject to an 18% preferential enterprise income tax rate based on its status as a Hi-tech Enterprise. It is currently in the process of renewing such status with the relevant PRC authorities. Our subsidiaries in Chengdu are subject to a 33% enterprise income tax rate with an income tax exemption for two years commencing from their first profit year and a 16.5% preferential enterprise income tax rate for the following three years. In addition, our subsidiaries in Chengdu have the benefit of certain business tax rebates.

There have been various tax reform proposals in the PRC, and if any of our incentives are reduced or eliminated by government authorities in the future, our effective tax rates on a consolidated basis could increase significantly. We cannot assure you that we will continue to enjoy these preferential tax treatments in the future and the discontinuation of these preferential tax treatments could materially and adversely affect our business, financial condition and results of operations.

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Further, under current PRC laws and regulations, our PRC subsidiaries do not pay any tax on any dividends or profit remittance made by our PRC subsidiaries to us, provided that such profits are permitted to be paid in accordance with PRC laws and regulations. However, we cannot assure you that such dividends and profit remittance will continue to be exempted from PRC income tax.

Devaluation or appreciation in the value of the Renminbi or restrictions on the convertibility of the Renminbi could adversely affect our business and results of operations.

The value of the Renminbi is subject to changes in the PRC government s policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in local markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars (the legal currency of Hong Kong) and U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous day s interbank foreign exchange market rates and with reference to current exchange rates on the world financial markets. Since then, including the period of the Asian financial crisis of 1997 and 1998, the official exchange rate for the conversion of Renminbi to the U.S. dollar was based on a peg. The PRC government had been under recent pressure from its trading partners to permit an appreciation of the Renminbi against the U.S. dollar to take account of the strong growth in the PRC s exports. On July 21, 2005, the PRC changed its currency policy and abandoned the Renminbi peg to U.S. dollars in favor of a managed float of the Renminbi based on market demand and supply with reference to a basket of currencies and their weightings. As a result, the Renminbi appreciated slightly. As the Renminbi is allowed to move in a managed way, there can be no assurance that the Renminbi will not further appreciate or that other measures will not be introduced to address the concerns of the PRC s trading partners. Any such appreciation of the Renminbi will increase the cost of our PRC operations in U.S. dollar terms (which is our financial reporting currency) and potentially adversely affect the pricing of our products exported from the PRC, which may have a material adverse effect on our business in the PRC. On the other hand, any devaluation of the Renminbi could result in an increase in volatility of other Asian currencies and capital markets. Accordingly, there can be no assurance that future exchange rate fluctuations between the Renminbi and the U.S. dollar will not have a material adverse effect on our financial condition and results of operations.

The PRC s legal system embodies uncertainties that could adversely affect our business and results of operations.

Since 1978, many new laws and regulations have been promulgated in the PRC. Despite this activity to develop the legal system, the PRC s system of laws is not yet complete. Enforcement of existing laws or contracts may be slow, uncertain or sporadic. It may also be difficult to enforce the judgment of a court of another jurisdiction. The relative inexperience of the PRC s judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

As a result of the changes occurring in the PRC s legal and regulatory structure, we may not be able to secure the requisite governmental approval for our activities which could adversely affect our business and results of operations.

Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions and reallocate funds from one PRC subsidiary to another in a timely manner.

We are a Cayman Islands company and a substantial portion of our operations is conducted through our PRC operating subsidiaries. The ability of these subsidiaries to make dividend and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under PRC law, these operating subsidiaries are permitted to pay dividends to us only out of their accumulated distributable profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC operating subsidiaries, as wholly foreign-owned enterprises in the PRC, are

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required to set aside at least 10% (up to an aggregate amount equal to half of its registered capital) of its after-tax profits each year. Such cash reserve may not be distributed as cash dividends.

Distributions by our PRC subsidiaries to us other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from us to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration with or approval by the PRC governmental authorities, including the SAFE and/or the relevant examination and approval authority. In addition, it is not permitted under PRC law for our PRC subsidiaries to lend money to one another directly. Therefore, it is difficult to change capital expenditure plans once the relevant funds have been remitted from us to our PRC subsidiaries. These limitations on the free flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions and reallocate funds from one PRC subsidiary to another in a timely manner.

RISKS RELATING TO THE ORDINARY SHARES, OUR ADSs AND THE GLOBAL OFFERING

The market price of our ordinary shares and/or our ADSs may be volatile and investors may not be able to sell their ordinary shares at or above the price at which they purchased their ordinary shares.

The initial offer price for the ordinary shares in this offering will be based on the trading price of ADSs on Nasdaq and may not be indicative of prices that will prevail in the trading markets. The financial markets in Hong Kong, the United States and other countries have experienced significant price and volume fluctuations, and market prices of technology companies have been and continue to be extremely volatile. Volatility in the price of our ordinary shares and/or our ADSs may be caused by factors outside our control and may be unrelated or disproportionate to our results of operations. Accordingly, investors may not be able to resell their ordinary shares at or above the price at which they purchased their shares.

There will be a five business day time gap between pricing and trading of our ordinary shares offered in this offering and therefore holders of our ordinary shares are subject to the risk that the trading prices of our ADSs and our ordinary shares could fall during the period before trading of our ordinary shares begins.

The initial prices to the public of our ordinary shares sold in the global offering will be determined on the date of pricing. However, the ordinary shares will not commence trading on the HKSE until they are delivered and all of the conditions contained in the underwriting agreement for the Hong Kong public offering have been satisfied, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our ordinary shares during that period. Accordingly, holders of our ordinary shares are subject to the risk that the trading prices of our ADSs and our ordinary shares could fall before trading of our ordinary shares begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading of the ordinary shares begins.

The value of a shareholder s investment may be reduced by possible future sales of ordinary shares or ADSs by us or our shareholders or the issue of ordinary shares under our employee stock option plans.

Future sales by us or our existing shareholders of substantial amounts of shares or ADSs in the public markets or the issue of ordinary shares under our employee stock option plans after the global offering could adversely affect prevailing market prices from time to time. We have undertaken to the HKSE that, except pursuant to the global offering or the related over-allotment option, at any time during the six-month period from the date on which dealings in our ordinary shares commence on the HKSE, we will not, without the prior consent of the HKSE and unless in compliance with the requirements of the listing rules of the HKSE, allot or issue or agree to allot or issue any shares or other securities (including convertible securities) or engage in similar transactions. We, our directors and our executive officers, have given a similar undertaking to the underwriters of the global offering. All other existing shareholders are, however, not subject to such restrictions. We may also decide to issue new shares once the foregoing restrictions lapse. Any such sale of securities, or the perception that such sales may occur, could depress the market price of our ordinary shares and/or ADSs and affect our ability to raise equity capital in the future.

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In addition, the issue of ordinary shares in the global offering or our under employee stock option plans will cause dilution to the earnings per ordinary share and net tangible asset value per ordinary share for the relevant periods because of the increase in the number of outstanding ordinary shares.

We have never declared or paid dividends on our ordinary shares or other securities and do not anticipate paying dividends in the foreseeable future.

We have not declared or paid dividends on our ordinary shares or other securities since our incorporation of the company. We do not anticipate declaring any dividend in the foreseeable future. Future dividends, if any, will be at the discretion of our board and will depend upon our future results of operations, capital requirements, general financial condition, legal and contractual restrictions and other factors our board may deem relevant.

Provisions in our Memorandum and Articles of Association may discourage potential acquisition bids for us and prevent changes in our management that our shareholders may favor.

Provisions in our Memorandum and Articles of Association could discourage potential acquisition proposals and could delay or prevent a change in control transaction that our shareholders favor. These provisions could have the effect of discouraging others from making offers for our ordinary shares. As a result, these provisions may prevent the market price of our ordinary shares from reflecting the effects of actual or rumored takeover attempts and may prevent shareholders from reselling their ordinary shares at or above the price at which they purchased their ordinary shares. These provisions may also prevent changes in our management that our shareholders may favor. Our Memorandum and Articles do not permit shareholders to act by written consent, do not permit shareholders to call a general meeting and provide for a classified board of directors, which means shareholders can only elect a limited number of our directors in any given year. Furthermore, our board has the authority to issue up to 250,000,000 preference shares in one or more series. Our board can fix the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders but subject to any direction that may be given by the shareholders in a general meeting. The issuance of preference shares may delay or prevent a change in control transaction without further action by our shareholders or make removal of management more difficult.

As we are a Cayman Islands company, it could be difficult for investors to effect service of process on and recover against us or our directors and officers and our shareholders may face difficulties in protecting their interest.

We are a Cayman Islands company, and many of our officers and directors are residents of various jurisdictions outside the United States. A substantial portion of our assets and the assets of our officers and directors, at any one time, are and may be located in jurisdictions outside the United States. Although we have irrevocably agreed that we may be served with process in Santa Clara, California with respect to actions arising out of or in connection with United States federal securities laws relating to offers and sales of our ordinary shares and/or our ADSs, it could be difficult for investors to effect service of process within the United States on our directors and officers who reside outside the United States or to recover against us or our directors and officers on judgments of the United States courts predicated upon the civil liability provisions of the United States federal securities laws.

Our corporate affairs are governed by our charter documents, consisting of our Memorandum and Articles of Association, and by the companies law and common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors are governed by

Cayman Islands law, which are not as clearly established as under statutes or judicial precedent in jurisdictions such as the United States. While there is some case law in the Cayman Islands on these matters, it is not as developed as, for example, in the United States. In addition, the laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in the United States. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of the United States. Due to the less protective nature of such laws in the Cayman Islands, our shareholders may have more difficulty in protecting their interests in the face of actions by our management or directors than would shareholders of a corporation incorporated in some other jurisdictions.

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We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

We may be classified as a passive foreign investment company by the U.S. Internal Revenue Service for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we are a passive foreign investment company, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a passive foreign investment company will be made on an annual basis and will depend on the composition of our income and assets, including goodwill, from time to time. Specifically, we will be classified as a passive foreign investment company for U.S. tax purposes if, after the application of look-through rules, either (a) 75% or more of our gross income in a taxable year is passive income, or (b) the average percentage of our assets (by value) in a taxable year that produce or are held for production of passive income is at least 50%. Our judgment is not binding on the Internal Revenue Service. In the future, the valuation of our intangible assets will be based in part on the then market value of our ADSs and ordinary shares which is subject to change. In addition, the composition of our income and assets will be affected by how we spend the cash we raise in the global offering. We cannot assure you that we will not be a passive foreign investment company for the current or any future taxable year. See Taxation United States Federal Income Taxation Passive Foreign Investment Company.

If you choose to become a holder of ADS after the global offering, you may not be able to exercise your right to vote.

If you become a holder of our ADSs, you may instruct the depositary of our ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares underlying the ADSs you hold. However, you may not know about the meeting sufficiently enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares. In addition, the depositary and its agents are not responsible for failing to carry outvoting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercises your right to vote, and there is no guarantee that the ordinary shares underlying your ADSs would be voted as you requested.

The depositary for our ADSs may give us a discretionary proxy to vote the ordinary shares underlying your ADSs if as a holder of ADSs you do not vote at shareholders meetings which could adversely affect your interests.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote the ordinary shares underlying ADSs at shareholders meetings if the holder of the ADSs did not vote, unless we notify the depositary that:

- we do not wish to receive a discretionary proxy,
- we think there is substantial shareholder opposition to the particular question, or
- we think the particular question would have a material adverse impact on our shareholders.

The effect of this discretionary proxy is that holders of ADSs cannot prevent the ordinary shares underlying their ADSs from being voted, absent the situation described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to discretionary proxy.

If you choose to become a holder of ADSs, you may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available.

The depositary of our ADSs has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian for our ADSs receives on ordinary shares or other deposited securities after deducting its fees and

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expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that ADS holders may not receive the distributions we make on ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of the ADSs.

Holders of ADSs may be subject to limitations on transfer of ADSs.

If you choose to become a holder of ADSs, your ADSs represented by American Depositary Receipts, or ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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USE OF PROCEEDS

The net proceeds of the global offering after deducting related estimated underwriting discounts and commissions and estimated offering expenses, and assuming an offering price of HK$ or US$ per ordinary share (being the Hong Kong dollar equivalent of the closing price of the ADSs on Nasdaq on , 2005) and that the over-allotment option is not exercised in whole or in part, are estimated to be approximately HK$ million or US$ million. To effect our future plans, we currently intend to apply the net proceeds as follows:

- for the construction and subsequent expansion of a semiconductor testing facility in China, including the purchase of properties, plant and equipment;
- for research and development, including the hiring of, and provision of training to, additional design engineers located in the PRC, and engineering projects focused on existing product upgrades and next generation product development;
- for investments related to securing production capacity, including but not limited to, making equity investments in our suppliers in the future if suitable opportunities arise;
- for expansion of our operational infrastructure (including entering into new leases, setting up new offices and purchasing IT equipment; and
- the remaining amount will be used as working capital and for other general corporate purposes, continued protection of our intellectual property and expansion of our sales and technical support staff in our targeted markets to develop and build stronger relationships with existing and prospective customers.

We expect to use the net proceeds from the global offering for general corporate purposes, including working capital and capital expenditures. We may also use a portion of any remaining net proceeds to acquire other technologies or other businesses when the opportunity arises. However, we currently have no commitments.

To the extent that the net proceeds of the global offering are not immediately applied for the above purposes, we intend to deposit the proceeds into interest bearing bank accounts or to invest in short-term investment grade debt securities.

DIVIDEND POLICY

We have never declared or paid dividends on our ordinary shares or other securities and do not anticipate paying dividends in the foreseeable future.

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MARKET PRICE INFORMATION

The following table sets forth for the periods indicated the reported high, low, period end, and average trading prices on Nasdaq for our ordinary shares (from August 23, 2000 until October 14, 2005).

Calendar Period	High	Low	Period End	Average
	US$	US$	US$	US$
Annual				
2000	26.00	6.75	7.50	13.45
2001	24.05	5.50	24.05	12.26
2002	25.28	5.30	9.75	13.94
2003	25.29	8.01	22.51	15.03
2004	24.98	9.04	11.44	14.66
Quarterly				
First Quarter 2003	12.00	8.01	10.76	9.79
Second Quarter 2003	17.05	10.45	16.13	13.57
Third Quarter 2003	18.25	13.45	14.41	15.85
Fourth Quarter 2003	25.29	14.56	22.51	20.62
First Quarter 2004	24.98	14.10	17.12	19.63
Second Quarter 2004	18.30	13.44	17.03	15.80
Third Quarter 2004	16.20	9.04	10.75	11.66
Fourth Quarter 2004	13.16	10.27	11.44	11.75
First Quarter 2005	10.95	8.74	10.29	9.98
Second Quarter 2005	14.72	9.35	14.02	11.85
Third Quarter 2005	17.72	14.10	15.74	16.03
Monthly				
May 2005	12.78	10.05	12.46	11.76
June 2005	14.72	13.20	14.02	13.75
July 2005	17.36	14.10	17.16	15.86
August 2005	16.93	15.27	16.73	16.22
September 2005	17.72	14.11	15.74	15.99
October 2005 (through October 14)	15.83	13.22	13.54	14.58

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DILUTION

If you invest in our ordinary shares, your interest will be diluted to the extent of the difference between the public offering price per ordinary share and the pro forma net tangible book value per ordinary share after the global offering. Dilution results from the fact that the per ordinary share offering price is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares. Our net tangible book value at June 30, 2005 was US$176 million or US$0.0896 per ordinary share. Our pro forma net tangible book value at was US$ million, or US$ per ordinary share. Pro forma net tangible book value per ordinary share represents the amount of total tangible assets less total liabilities, divided by the number of ordinary shares outstanding after giving effect to the 50-for-1 split of our ordinary shares which occurred on , 2005.

After giving effect to our sale of ordinary shares in this offering at the assumed public offering price of HK$ per ordinary share (being the Hong Kong dollar equivalent of the closing price of our ADSs on Nasdaq on , 2005) and after deducting the underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value as of would have been US$ million, or US$ per ordinary share. This represents an immediate increase in pro forma net tangible book value of US$ per ordinary share to existing shareholders and an immediate dilution of US$ per ordinary share to investors purchasing ordinary shares in the global offering. The following table illustrates this per share dilution:

Assumed initial public offering price per ordinary share	$	(1)
Net tangible book value per ordinary share at June 30, 2005	$	0.0896
Pro forma net tangible book value per ordinary share at June 30, 2005		
Increase in pro forma net tangible book value per ordinary share attributable to the global offering		
Pro forma net tangible book value per ordinary share after the global offering		
Dilution per ordinary share to new investors	$	

(1) Based on an exchange rate of HK$7.77 per US$1.00, the noon buying rate on June 30, 2005 in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

The foregoing discussion and table assume no exercise of any stock options outstanding as of , 2005. As of , 2005, there were options outstanding to purchase a total of ordinary shares with a weighted average exercise price of US$ per ordinary share. We have also reserved an additional ordinary shares for issuance under our stock plans. To the extent that these options are exercised, there will be an additional dilution to new investors.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2005:

- on an actual basis and assuming that our proposed 50-for-1 share split that was effected on , 2005 had occurred as of June 30, 2005; and
- on an as adjusted basis to give effect to the sale of ordinary shares offered by us in the global offering at an assumed public offering price of HK$ per share (being the Hong Kong dollar equivalent of the closing price of our ADSs on Nasdaq on , 2005), after deducting the estimated underwriting discounts and commissions and the estimated offering expenses payable by us, assuming an exchange rate of HK$ per US$1.00, the noon buying rate in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on such date.

	June 30, 2005	
	Actual	As Adjusted
	(in thousands) (Unaudited)	
Shareholders equity:		
Ordinary shares, US$0.00002 par value per share; 4,750,000,000 shares authorized, 1,960,475,550 shares issued and outstanding, actual, shares issued and outstanding as adjusted	$ 39	
Additional paid-in capital	140,204	
Accumulated other comprehensive loss	(242)	
Retained earnings	35,661	
Total shareholders equity	175,662	
Total capitalization	$ 175,662	$

The outstanding share information excludes the following:

- an aggregate of ordinary shares issuable upon the exercise of options outstanding as of , 2005 having a weighted average exercise price of US$ per ordinary share; and
- additional ordinary shares available for issuance under our stock plans.

This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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EXCHANGE RATE INFORMATION

For your convenience, this prospectus contains translations between U.S. dollars and Hong Kong dollars at HK$7.77 per US$1.00, the noon buying rate on June 30, 2005. The translation is not a representation that the HK dollars amounts could actually be converted into U.S. dollars at that rate.

The following tables set forth information concerning the noon buying rates in The City of New York for cable transfers in Hong Kong dollars, as certified for customs purposes by the Federal Reserve Bank of New York, for the periods indicated. The yearly average rates represent the average of the noon buying rates on the last business day of each month. Monthly averages are calculated using the average of the daily noon buying rates during the relevant period.

	Noon Buying Rate			
	Period End	Average	High	Low
	(HK$ per US$1.00)			
2000	$ 7.7999	$ 7.7936	$ 7.8008	$ 7.7765
2001	7.7980	7.7996	7.8004	7.7970
2002	7.7988	7.7996	7.8095	7.7970
2003	7.7640	7.7864	7.8001	7.7085
2004	7.7723	7.7899	7.8010	7.7632
2005				
January	7.7993	7.7948	7.7994	7.7775
February	7.7992	7.7994	7.7999	7.7984
March	7.7990	7.7994	7.7998	7.7987
April	7.7946	7.7984	7.7995	7.7946
May	7.7788	7.7914	7.7995	7.7767
June	7.7719	7.7755	7.7842	7.7692
July	7.7744	7.7751	7.7792	7.7685
August	7.7718	7.7709	7.7734	7.7684
September	7.7567	7.7618	7.7693	7.7567
October (through October 14)	7.7565	7.7567	7.7583	7.7545

The Hong Kong dollar is freely convertible into currencies including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The link is supported by an agreement between Hong Kong s three bank note-issuing banks and the Hong Kong government pursuant to which bank notes issued by such banks are backed by certificates of indebtedness purchased by such banks from the Hong Kong Government Exchange Fund with U.S. dollars at the fixed exchange rate of HK$7.80 to US$1.00 and held as cover for the bank notes issued.

The market exchange rate has not deviated significantly from the rate of HK$7.80 to US$1.00 since the link was established. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the U.S. dollar and such currencies.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below, as of and for the years ended December 31, 2002, 2003 and 2004 and the six months ended June 30, 2004 and 2005, is derived from our audited (or, in the case of June 30, 2004, unaudited) consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements, and have included all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. The historical results are not necessarily indicative of results to be expected in any future period. You should read these results in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

Earnings per ordinary share, earnings per ADS data and the number of shares used to compute earnings per ordinary share and earnings per ADS are presented in the table below to give effect to the proposed 50-for-1 share split with each ADS representing 50 post-split ordinary shares.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
	(in thousands, except for per ordinary share or per ADS data, or as otherwise noted)				
Profit and Loss Account Data:					
Net sales	$ 70,187	$ 88,599	$ 92,196	$ 46,261	$ 48,913
Cost of sales	28,143	38,314	37,403	19,124	18,521
Gross profit	42,044	50,285	54,793	27,137	30,392
Operating expenses:					
Research and development	18,935	19,219	20,260	9,242	11,590
Selling, general and administrative	11,790	13,522	16,348	7,514	9,760
Patent litigation	535	3,954	5,334	1,728	5,133
Stock-based compensation	44				
Total operating expenses	31,304	36,695	41,942	18,484	26,483
Income from operations	10,740	13,590	12,851	8,653	3,909
Non-operating income net	1,662	1,437	2,705	804	1,222
Income before income tax	12,402	15,027	15,556	9,457	5,131
Income tax expenses	1,673	1,826	1,472	1,103	62
Net income	$ 10,729	$ 13,201	$ 14,084	$ 8,354	$ 5,069
Earnings per ordinary share:					
Basic	$ 0.0056	$ 0.0069	$ 0.0072	$ 0.0043	$ 0.0026
Diluted	$ 0.0054	$ 0.0066	$ 0.0070	$ 0.0041	$ 0.0026

Basic(1)	HK$	0.04	HK$	0.05	HK$	0.06	HK$	0.03	HK$	0.02
Diluted(1)	HK$	0.04	HK$	0.05	HK$	0.05	HK$	0.03	HK$	0.02
Shares used to compute earnings per ordinary share:										
Basic		1,915,000		1,918,700		1,957,800		1,958,050		1,958,850
Diluted		1,979,550		1,986,800		2,005,100		2,023,350		1,984,050
Earnings per ADS:										
Basic	$	0.28	$	0.34	$	0.36	$	0.21	$	0.13
Diluted	$	0.27	$	0.33	$	0.35	$	0.21	$	0.13
Shares used to compute earnings per ADS (in thousands):										
Basic		38,300		38,374		39,156		39,161		39,177
Diluted		39,591		39,736		40,102		40,467		39,681

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(1) Based on an exchange rate of HK$7.77 per US$1.00, the noon buying rate on June 30, 2005 in The City of New York for cable transfer of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Balance Sheet Data:					
Cash and cash equivalents and short-term investments	$ 112,009	$ 120,412	$ 120,088	$ 122,427	$ 114,591
Working capital	120,793	130,510	132,713	134,051	126,130
Total assets	145,837	169,293	185,196	178,196	194,768
Net assets	135,148	154,727	170,781	164,494	175,662
Ordinary shares, treasury shares and additional paid-in capital	126,232	137,115	139,620	138,684	140,243
Other Financial Data:					
Net cash inflows from operating activities	9,523	14,756	14,129	7,785	8,420
Net cash outflows from investment activities	(34,669)	(23,520)	(25,228)	(3,597)	(15,981)
Net cash inflow/(outflow) from financing activities	(4,433)	5,922	946	1,410	(70)

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in Risk Factors and elsewhere in this prospectus and the documents incorporated in this prospectus. The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus.

Overview

We design, develop and market high performance integrated circuits for power management and security applications. Our net sales have been derived primarily from the sale of mixed-signal integrated circuit products to customers in the consumer electronics, computer, industrial and communications markets.

Our net sales have grown from US$70.2 million in 2002 to US$88.6 million in 2003 and US$92.2 million in 2004. In the six months ended June 30, 2005, our net sales were US$48.9 million, an increase of 5.7% as compared with net sales of US$46.3 million in the same period in 2004. This increase in net sales was due primarily to the introduction of new products, higher unit shipments of our existing products and expansion of our customer base. We have continued to diversify our customer base and market focus by entering additional market segments in the consumer electronics, computer, industrial and communications markets. 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 grew from US$31.3 million in 2002 to US$36.7 million in 2003 and US$41.9 million in 2004. In the six months ended June 30, 2005, our operating expenses were US$26.5 million. Our operating expenses increased as we continued our new product development efforts, expanded our operations and hired additional personnel.

Our net income was US$10.7 million in 2002, US$13.2 million in 2003, US$14.1 million in 2004 and US$5.1 million in the six months ended June 30, 2005. We have been profitable in each quarter since the quarter ended September 30, 1999. 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. Our profitability resulted in retained earnings of US$35.7 million as of June 30, 2005.

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. 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 reduces the capital we need to invest in these activities. However, we intend to bring some of the more critical semiconductor testing activities in-house to safeguard our proprietary technologies.

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 one distributor in Japan. In the year ended December 31, 2004 and the six months ended June 30, 2005, we continued to experience increased sales to customers in 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

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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.

Critical Accounting Policies

Revenue recognition and accounts receivable allowances

We recognize revenue on sales to direct customers in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements, or SAB 104. SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence that an agreement exists, (2) delivery has occurred or services have been rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. Determination of criterion (4) is based on management s judgments regarding the collectibility of those fees.

For sales made through distributors, we defer recognition of such sales until the product is sold by the distributors to their end customers. Since we have limited control over these distributors sales to third parties, we recognize revenues on these sales only when the distributors sell the products. In addition, products held by distributors are included in our inventory balance. Accounts receivable from distributors are recognized and inventory is relieved upon shipment as title to inventories generally transfers upon shipment.

We make allowances for future product returns in the current period revenue. We analyze historical returns, changes in current demand and acceptance of products when evaluating the adequacy of such allowances. Estimates may differ from actual product returns and allowances and these differences may materially affect our reported revenue and amounts ultimately collected on accounts receivable. In addition, we monitor collectibility of accounts receivable primarily through review of the accounts receivable aging. When facts and circumstances indicate the collection of specific amounts or from specific customers is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made. To date, we have not experienced material write-offs of accounts receivable due to uncollectibility.

Inventories

Our inventories are stated at the lower of standard cost or market value. Cost is determined on a currently adjusted standard basis, which approximates actual cost on a first-in, first-out basis. Because of the cyclicality of the market, inventory levels, obsolescence of technology and product life cycles, we write down inventories to net realizable value based on backlog, forecasted product demand and historical sales levels. Backlog is subject to revisions, cancellations and rescheduling. Actual demand and market conditions may be lower than those projected by us. This difference could have a material adverse effect on our gross margin should additional inventory write downs become necessary.

Long-lived assets

We evaluate the recoverability of property, plant and equipment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We perform periodic reviews to determine whether facts and circumstances exist that would indicate that the carrying amounts of property, plant and equipment might not be fully recoverable. If facts and circumstances indicate that the carrying amount of property, plant and equipment might not be fully recoverable, we compare projected undiscounted net cash flows associated with the related assets over their estimated remaining useful life against their respective carrying amounts. In the event that the projected undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets. Evaluation of impairment of property, plant and equipment requires estimates in the forecast of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual operating results and the remaining economic lives of the property, plant and equipment could differ from the estimates used in assessing the recoverability of these assets. These differences could result in additional impairment charges, which could have a material adverse effect on our results of operations.

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Income taxes

Our income taxes are accounted in accordance with SFAS No. 109, Accounting for Income Taxes. The provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the years. Deferred income tax assets are primarily the tax effects of the operating loss carry-forwards, research and development credit carryforwards and temporary differences. On a periodic basis we evaluate the deferred tax assets balance for realizeability. To the extent we believe it is more likely than not that some portion of deferred tax assets will not be recognized, we will increase the valuation allowance against the deferred tax assets. Realization of the deferred tax assets is dependent primarily upon future taxable income, changes in tax laws and other factors. These changes, if any, may require possible material adjustment to the deferred tax assets, resulting in a reduction in net income in the period when such determinations are made.

Legal contingencies

We are currently involved in various claims and legal proceedings. We periodically assess each matter in order to determine if a contingent liability in accordance with SFAS No. 5, Accounting for Contingencies, should be recorded. In making the determination, we may, depending on the nature of the matter, consult with external counsel and technical experts. Based on the information obtained combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be estimated. Should a loss be probable and estimable, we record a contingent loss in accordance with SFAS No. 5. In determining the amount of a contingent loss, we take into consideration advice received from experts in the specific matter, current status of legal proceedings, prior case history and other factors. Should the judgments and estimates be incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations.

Stock-based compensation

We have elected to follow Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees and comply with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation for our employee stock options. Under APB No. 25, compensation expense is measured based on the difference, if any, on the date of the grant, between the fair value of the ordinary shares and the exercise price of the stock option.

At the end of June 2005, our board approved the acceleration of the vesting of options with exercise prices greater than US$17.00. Our board evaluated the minimal benefit to our employees of accelerating the remaining vesting on these significantly underwater options against the value to shareholders of not having earnings materially affected and the impact that this may have on the company s market value. In addition, these options had exercise prices in excess of the then current market values and were not fully achieving their original objectives of incentive compensation and employee retention. Accelerating the vesting of these options accelerated the recognition of any remaining expense associated with these options which is zero under APB No. 25.

Research and development costs

Our research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge that will be useful in developing new products or processes, or at significantly enhancing existing products or production processes as well as expenditures incurred for the design and testing of product alternatives or the construction of prototypes. We charge all of our expenditures related to research and development activities to operating expenses when incurred.

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Results of Operations

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

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Consolidated Statement of Operations Data:					
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	40.1	43.2	40.6	41.3	37.9
Gross profit	59.9	56.8	59.4	58.7	62.1
Operating expenses:					
Research and development	27.0	21.7	22.0	20.0	23.7
Selling, general and administrative	16.8	15.3	17.7	16.2	20.0
Patent litigation	0.8	4.5	5.8	3.7	10.5
Stock-based compensation	0.1				
Total operating expenses	44.6	41.4	45.5	39.9	54.2
Income from operations	15.3	15.4	13.9	18.8	7.9
Non-operating income net	2.4	1.6	2.9	1.7	2.5
Income tax expenses	2.4	2.1	1.6	2.4	0.1
Net income	15.3	14.9	15.2	18.1	10.3

Operating results for the six months ended June 30, 2005 and 2004

Net Sales. Net sales consisted of product revenues generated principally by sales of our integrated circuit products. Net sales for the six months ended June 30, 2005 were US$48.9 million, an increase of US$2.7 million or 5.7% from US$46.3 million for the six months ended June 30, 2004. The increase in sales resulted from increased unit shipments to our existing customers and expansion of our customer base. In particular, the share of our net sales derived from the consumer electronics market continued to increase over this period. This increase resulted primarily from the increase in product shipments to an increased number of intermediaries that we supply to in the consumer electronics end-market whose end-customers use our products in their desktop monitors, LCD televisions and portable media players.

Gross Profit. Gross profit represents net sales less cost of sales. Cost of sales primarily consists of the costs of purchasing packaged integrated circuit products manufactured and assembled for us by independent foundries and packaging vendors and other costs associated with the procurement, storage and shipment of these products. Gross profit for the six months ended June 30, 2005 was US$30.4 million, an increase of US$3.3 million or 12.0% from US$27.1 million for the six months ended June 30, 2004. This increase was due to increased sales. Gross profit as a percentage of net sales for the six months ended June 30, 2005 increased to 62.1% from 58.7% for the six months ended June 30, 2004 due to increased sales of our higher margin products, which include all of our products other than standard CardBus controller and power switch products. Standard CardBus controller and power switch products are lower margin products because the technology used in these products has become commoditized in our industry. Our other products, which use our proprietary technologies, are more complex with enhanced features, thereby allowing us to command a higher margin on these products. We expect that our gross profit as a percentage of net sales will continue to fluctuate in the future as a result of 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.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related costs of employees engaged in research, design and development activities and, to a lesser extent, expenses for outside engineering consultants. Research and development expenses for the six months ended June 30, 2005 were US$11.6 million, an increase of US$2.3 million or 25.4% from US$9.2 million for the six

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months ended June 30, 2004. This increase reflected the increased hiring of design engineers in the PRC resulting from our increased operations in this market and increased consultancy fees paid to outside consultants in respect of certain research and development projects. As a percentage of net sales, research and development expenses were 23.7% for the six months ended June 30, 2005, an increase from 20.0% for the six months ended June 30, 2004. Research and development expenses as a percentage of net sales will fluctuate from quarter to quarter depending on the amount of net sales and the success of new product development efforts, which we view as critical to our future growth. At any point in time, we have several research and development projects underway, and we believe that none of these projects is material on an individual basis. We expect to continue the development of innovative technologies and processes for new products and we believe that a continued commitment to research and development is essential in order to maintain the competitiveness of our existing products and to provide innovative new product offerings. Therefore, we expect to continue to invest significant resources in research and development in the future.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of employee-related expenses, sales commissions to agents, professional fees, legal fees, travel and other promotional expenses. Selling, general and administrative expenses for the six months ended June 30, 2005 were US$9.8 million, an increase of US$2.2 million or 29.9% from US$7.5 million for the six months ended June 30, 2004. This increase was primarily due to additional hiring of sales personnel in Taiwan, increased sales commissions relating to higher sales and increased professional fees to external auditors. As a percentage of net sales, selling, general and administrative expenses were 20.0% for the six months ended June 30, 2005, an increase from 16.2% for the six months ended June 30, 2004. We expect that selling, general and administrative expenses will continue to increase in absolute dollar terms in the foreseeable future for the same reasons.

Patent Litigation Expenses. Patent litigation expenses consist primarily of fees paid to outside counsel and consultants engaged by outside counsel. Patent litigation expenses for the six months ended June 30, 2005 were US$5.1 million, an increase of US$3.4 million or 197.0% from US$1.7 million for the six months ended June 30, 2004. This increase was primarily due to trial preparation work for the MPS trial in June 2005 and increased activity in other litigation matters. As a percentage of net sales, patent litigation expenses were 10.5% for the six months ended June 30, 2005, an increase from 3.7% for the six months ended June 30, 2004. We expect that patent litigation expenses will continue to fluctuate for the foreseeable future. See the section headed Business Intellectual Property in this prospectus.

Non-Operating Income-Net. Non-operating income-net reflects interest earned on cash and cash equivalents and short-term investments, foreign exchange transaction gains and losses and the gain on sales of long-term investments and impairment loss on investment in shares of stock. Non-operating income-net was US$1.2 million for the six months ended June 30, 2005, increasing from US$0.8 million for the six months ended June 30, 2004 which reflected more interest earned on our cash and cash equivalents and short-term investments.

Income Tax Expenses. Income tax expenses were approximately US$62,000 for the six months ended June 30, 2005, compared to US$1.1 million for the six months ended June 30, 2004. This decrease was primarily due to an accrual of approximately US$658,000 for Taiwan income tax due on imported products as of December 31, 2004, which was reversed and applied as a credit on our income tax due in the six months ended June 30, 2005. Our effective tax rate was 1.2% for the six months ended June 30, 2005, compared to 11.7% for the six months ended June 30, 2004.

Net income. As a result of the above factors, our net income was US$5.1 million for the six months ended June 30, 2005, a decrease of US$3.3 million from US$8.4 million from the six months ended June 30, 2004. Our net income as a percentage of net sales decreased to 10.3% for the six months ended June 30, 2005 from 18.1% for the six months ended June 30, 2004. This decrease was primarily due to an increase in our patent litigation expenses over the same period for the reasons set out above.

Operating results for the years ended December 31, 2004 and 2003

Net Sales. Net sales for the year ended December 31, 2004 were US$92.2 million, an increase of US$3.6 million or 4.1% from US$88.6 million for the year ended December 31, 2003. This increase in net sales resulted

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from increased unit shipments of our existing products as well as shipments of new products and expansion of our customer base. In particular, the shares of our net sales derived from consumer electronics end-market continued to increase from 2003 to 2004. This increase resulted primarily from the increase in product shipments to an increased number of intermediaries that we supply to in the consumer electronics end-market whose end-customers use our products in their desktop monitors, LCD televisions and portable media players. In 2004, we introduced new CardBus and CCFL inverter controller products. We also enhanced the features of certain products in every existing product group in 2004 (except for Audio DJ products).

Gross Profit. Gross profit for the year ended December 31, 2004 was US$54.8 million, an increase of US$4.5 million or 9.0% from US$50.3 million for the year ended December 31, 2003. This increase was due to increased sales. Gross profit as a percentage of net sales for the year ended December 31, 2004 increased to 59.4% from 56.8% for the year ended December 31, 2003 due to increased sales of higher margin products which are all of our products other than our standard CardBus controllers and power switch products.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2004 were US$20.3 million, an increase of US$1.0 million or 5.4% from US$19.2 million for the year ended December 31, 2003. This increase primarily reflected the addition of research and development personnel. As a percentage of net sales, research and development expenses were 22.0% for the year ended December 31, 2004, an increase from 21.7% for the year ended December 31, 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2004 were US$16.3 million, an increase of US$2.8 million or 20.9% from US$13.5 million for the year ended December 31, 2003. This increase was primarily due to hiring of additional personnel, additional traveling and sales and marketing expenses. As a percentage of net sales, selling, general and administrative expenses were 17.7% for the year ended December 31, 2004, an increase from 15.3% for the year ended December 31, 2003.

Patent Litigation Expenses. Patent litigation expenses for the year ended December 31, 2004 were US$5.3 million, an increase of US$1.4 million or 34.9% from US$4.0 million for the year ended December 31, 2003. This increase was primarily due to increased activity in existing litigation cases and the filing of additional claims by us. As a percentage of net sales, patent litigation expenses were 5.8% for the year ended December 31, 2004, an increase from 4.5% for the year ended December 31, 2003.

Non-Operating Income-Net. Non-operating income-net was US$2.7 million for the year ended December 31, 2004 increasing from US$1.4 million for the year ended December 31, 2003, reflecting additional foreign exchange transaction gains and gains on our sale of certain of our shares in 360 Degree Web Ltd., one of our long-term investments, in March 2004.

Income Tax Expenses. Income tax expenses were US$1.5 million for the year ended December 31, 2004, compared to US$1.8 million for the year ended December 31, 2003. This decrease was primarily due to a change in the global sales mix and the reversal of additional income tax payable for the 2000 tax year as a result of an examination and approval of our 2000 income tax return by the local Taiwan tax office authority. Our effective tax rate was 9.5% for the year ended December 31, 2004, compared to 12.2% for the year ended December 31, 2003.

Net income. As a result of the above factors, our net income was US$14.1 million for the year ended December 31, 2004, an increase of US$0.9 million from US$13.2 million for the year ended December 31, 2003. Our net income as a percentage of net sales increased to 15.2% for the year ended December 31, 2004 from 14.9% for the year ended December 31, 2003.

Operating results for the years ended December 31, 2003 and 2002

Net Sales. Net sales for the year ended December 31, 2003 were US$88.6 million, an increase of US$18.4 million or 26.2% from US$70.2 million for the year ended December 31, 2002. This increase in net sales resulted

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from increased unit shipments of our existing products as well as shipments of new products and expansion of our customer base. In particular, the shares of our net sales derived from consumer electronics end-market continued to increase from 2002 to 2003. This increase resulted primarily from the increase in product shipments to an increased number of intermediaries that we supply to in the consumer electronics end-market whose end-customers use our products in their desktop monitors, LCD televisions and portable media players. In 2003, we introduced the Cardbus Power Switch and the Cardbus security products. We also enhanced the features of certain products in every existing product group in 2003.

Gross Profit. Gross profit for the year ended December 31, 2003 was US$50.3 million, an increase of US$8.2 million or 19.6% from US$42.0 million for the year ended December 31, 2002. This increase was due to increased sales. Gross profit as a percentage of net sales for the year ended December 31, 2003 decreased to 56.8% from 59.9% for the year ended December 31, 2002 due to increased sales of our standard CardBus controllers and power switch products, which are our lower margin products.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2003 were US$19.2 million, an increase of approximately US$284,000 or 1.5% from US$18.9 million for the year ended December 31, 2002. This increase primarily reflected the hiring of additional research and development personnel. As a percentage of net sales, research and development expenses were 21.7% for the year ended December 31, 2003, a decrease from 27.0% for the year ended December 31, 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2003 were US$13.5 million, an increase of US$1.7 million or 14.7% from US$11.8 million for the year ended December 31, 2002. This increase was primarily due to hiring of additional personnel, additional traveling expenses and increased sales commissions relating to higher sales. As a percentage of net sales, selling, general and administrative expenses were 15.3% for the year ended December 31, 2003, a decrease from 16.8% for the year ended December 31, 2002.

Patent Litigation Expenses. Patent litigation expenses for the year ended December 31, 2003 were US$4.0 million, an increase of US$3.4 million or 639.1% from approximately US$535,000 for the year ended December 31, 2002. This increase was primarily due to increased litigation activity in existing cases and the filing of additional claims by us. As a percentage of net sales, patent litigation expenses were 4.5% for the year ended December 31, 2003, an increase from 0.8% for the year ended December 31, 2002.

Stock-based Compensation. For accounting purposes, we recognize deferred stock-based compensation whenever we grant options or warrants to purchase our ordinary shares to employees with exercise prices that are less than the deemed fair market value of the underlying ordinary shares at the grant date and whenever we grant options or warrants to consultants. Amortization of deferred stock-based compensation recorded in the year ended December 31, 2003 was nil, a decrease of approximately US$44,000 or 100.0% from US$44,000 for the year ended December 31, 2002.

Non-Operating Income-Net. Non-operating income-net was US$1.4 million for the year ended December 31, 2003 decreasing from US$1.7 million for the year ended December 31, 2002, reflecting less interest earned in our cash and cash equivalents and short-term investments.

Income Tax Expenses. Income tax expenses were US$1.8 million for the year ended December 31, 2003, compared to US$1.7 million for the year ended December 31, 2002. This increase was primarily due to an increase in our net sales. Our effective tax rate was 12.2% for the year ended December 31, 2003, compared to 13.5% for the year ended December 31, 2002.

Net Income. As a result of the above factors, our net income was US$13.2 million for the year ended December 31, 2003, an increase of US$2.5 million from US$10.7 million for the year ended December 31, 2002. Our net income as a percentage of net sales decreased to 14.9% for the year ended December 31, 2003 from 15.3% for the year ended December 31, 2002.

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Liquidity and Capital Resources

Cash flows

Since our inception, we have financed our operations primarily through private sales of securities and through our initial public offering in August 2000 and our public offering in November 2001 as well as cash provided by operating activities in recent years. As of June 30, 2005, cash and cash equivalents and short-term investments were US$114.6 million.

The following table sets forth certain information regarding our audited consolidated cash flows for the periods indicated:

	Year Ended December 31,	Six Months Ended