

ACL SEMICONDUCTOR INC
Form 10-K/A
January 07, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 Or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-50140

ACL Semiconductors Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

16-1642709

(I.R.S. Employer Identification Number)

**B24-B27, 1/F., Block B, Proficient Industrial Centre,
6 Wang Kwun Road, Kowloon, Hong Kong**

(Address of principal executive offices)

(Zip code)

Registrant's telephone number including area code : **011-852-2799-1996**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common Stock, \$0.001 par value

Name of each exchange on which registered:

Over-the-Counter Bulletin Board

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, or a non-accelerated filer, or smaller reporting company. See definitions of large accelerated filer accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-5 of the Act). Yes o No x
The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 29, 2007 was approximately \$713,992 based upon the closing price of \$0.12 of the registrant's common stock on the OTC Bulletin Board. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates).

The number of shares of Registrant's Common Stock outstanding as of April 11, 2008 was 28,329,936.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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EXPLANATORY NOTE

This Amendment No. 2 to ACL Semiconductors, Inc.'s (the Company) Annual Report on Form 10-K/A for the year ended December 31, 2007 is being made to respond to certain comments received from the Staff of the Securities and Exchange Commission (SEC).

This Form 10-K/A amends and restates Item 1 and Item 1A of Part I, Item 5, Item 6, Item 7 and Item 9AT of Part II, Item 13 of Part III, Report of Independent Registered Public Accounting Firm, Consolidated Statements of Stockholders' Equity, Consolidated Statement of Cash Flows, and the Notes to Consolidated Financial Statements of Part IV. This amendment also adds a restatement footnote as Note 15 of Part IV. No other information included in the original Form 10-Q is amended hereby.

For convenience and ease of reference, the Company is filing the Annual Report in its entirety with applicable changes. Unless otherwise stated, all information contained in this amendment is as of April 16, 2008, the filing date of the original Annual Report. Except as stated herein, this Form 10-K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Annual Report that may have been affected by events or transactions occurring subsequent to such filing date. No information in the Annual Report other than as set forth above is amended hereby. Currently-dated certifications from our Chief Executive Officer and our Chief Financial Officer have been included as exhibits to this amendment.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated herein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words plan, intend, may, will, expect, believe, could, anticipate, estimate, or continue or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Any reference to ACL, the Company, we, us, our or the Registrant means ACL Semiconductors Inc. and its subsidiaries.

PART I

Item 1. Business General

ACL Semiconductors Inc. (the Company) was incorporated under the laws of the State of Delaware on September 17, 2002. Our predecessor, Print Data Corp. (Historic Print Data) was incorporated under the laws of the State of Delaware on August 15, 1984 as a business forms distributor and supplier of office and computer environment supply needs.

On September 8, 2003, the Company entered into a Share Exchange and Reorganization Agreement (the Exchange Agreement) with Atlantic Components Limited, a Hong Kong corporation (Atlantic), and Mr. Chung-Lun Yang, the sole beneficial stockholder of Atlantic (Mr. Yang), which set forth the terms and conditions of the exchange by Mr. Yang of his common shares of Atlantic, representing all of the issued and outstanding capital stock of Atlantic, in exchange for the issuance by the Company to Mr. Yang and certain financial advisors of an aggregate of twenty five million (25,000,000) shares of common stock, par value \$0.001 per share (the Common Stock), of the Company (the Transaction). Pursuant to the Exchange Agreement, the Company and Atlantic agreed, *inter alia*, to elect Mr. Yang and Mr. Ben Wong to the board of directors (Board of Directors) of the Company upon the closing of the Transaction (the Closing), effective as of that date (the Closing Date), at which time, all of the Company's existing directors resigned.

The Closing occurred on September 30, 2003, upon the satisfaction or waiver of the conditions to the Closing set forth in the Exchange Agreement, as a result of which (i) Atlantic became a wholly-owned subsidiary of the Company, (ii) Mr. Yang received an aggregate of 22,380,000 shares of Common Stock, (iii) the Company's existing directors resigned and Mr. Yang and Mr. Wong were appointed to fill their vacancies and became the only members of the Board of Directors, and (iv) certain financial advisors to Atlantic became entitled to receive an aggregate of 2,620,000 shares of Common Stock. Giving effect to the Closing (including required issuances to financial advisors), Mr. Yang held approximately 80.4% of the outstanding Common Stock immediately following the Closing.

On December 16, 2003, the Company filed a Certificate of Amendment with the Secretary of State of the State of Delaware changing its name from Print Data Corp. to ACL Semiconductors Inc.

Business

The Company is one of the authorized distributors in the Hong Kong and southern region of the People's Republic of China (Southern China) markets of memory products of Samsung Electronics Hong Kong Co., Ltd. (Samsung), a wholly-owned subsidiary of Samsung Electronics Co., Ltd., the world's largest producer of memory chips and a global producer of memory products, pursuant to a distributorship agreement with Samsung (the Distribution Agreement) since 1993. Atlantic was established as a Hong Kong corporation in May 1991 by Mr. Yang as a regional distributor of memory products of various manufacturers. In 1993, Samsung appointed Atlantic as its authorized distributor and marketer of Samsung's memory products in Hong Kong and overseas markets. In 2001, Atlantic established a representative office in Shenzhen, China and began concentrating its distribution and marketing efforts in Southern China.

Since 1993, Atlantic has diversified its product portfolio to include all of Samsung's memory products marketed under the Samsung brand name which comprise Dynamic Random Access Memory (DRAM), Double Data Rate RAM (DDR), Graphic Random Access Memory (Graphic RAM), NAND FLASH, NOR FLASH, and Multi-Chip Packing (MCP). Atlantic believes it is one of the largest and most successful distributors of Samsung memory products in Hong Kong and Southern China.

The Company's business objective is to build the best memory solutions platform for electronics manufacturers in the region. It also aims to offer updated market intelligence to Samsung in connection with the Hong Kong and Southern China markets' demand in memory products and secure high-quality Samsung products in order to meet the market demands of individual and corporate users in Hong Kong and Southern China. The Company works closely with Samsung and presents Samsung with updated market information that it collects from retail channels and corporate users to assist Samsung to plan their production and allocation schedule in advance. The Company's business strategy is to assist Samsung in implementing their production planning using market intelligence to balance the supply and demand of memory products in the Hong Kong and Southern China markets. Accordingly, the Company maintains and develops a sales and market research team to answer marketing questions from Samsung on a regular basis. In addition, the Company has established distribution channels covering retail outlets and major corporate users in the region which allows those retail or ultimate customers a secure stable supply of Samsung's memory products with competitive prices. The Company is a non-exclusive distributor of Samsung, and enjoys a minimum guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in form of sales rebate payable by Samsung.

Approximately 80% of the Company's revenues are derived from sales of Samsung memory products. As of December 31, 2007, pricing for the Samsung memory products ranged from approximately \$0.17 to \$750 per product depending on the product specifications.

The Distribution Agreement has a one-year term and contains certain sales quotas to be met by the Company. The Distribution Agreement has been renewed more than ten times, most recently on March 1, 2008. The Company has never failed to meet the sales quotas set forth in the Distribution Agreement.

Products

Synchronous Dynamic Random Access Memory (SDRAMs), or mobile SDRAM, are the most widely used semiconductor memory component in computer peripheral (HDD), DSC (digital still camera), Modems, ADSL Applications, DVD player, STB (set-top box), Digital TV, High Definition TV, PMP (Portable Multimedia Player).

DDRs (DDR1, DDR2 and DDR3) are random access memory components that transfer data on both 0-1 and 1-0 clock transitions, theoretically yielding twice the data transfer rate of normal RAM or SDRAM. Currently, the market has

been dominated by DDR2 and DDR3, which are also starting to penetrate into the mainstream markets in PCs and graphic cards. The DDR1 is nearly fading out in the market.

Flash memory is a specialized type of memory component used to store user data and program code; it retains this information even when the power is off. Although flash memory is currently used predominantly in mobile phones and PDAs, it is commonly used in multi-media digital storage applications for products such as MP3 players, Digital Still Cameras, Digital Voice Recorders, USB Disks, Flash Cards, etc. In addition, Solid State Disk hard disks (SSD) will be the next arena that NAND FLASH is expected by the Company to penetrate in the marketplace. The SSD hard disk could gradually dominate the traditional hard disk for notebook markets. Samsung is a major supplier in the world of FLASH products. In 2005, Samsung NAND Flash revenue was approximately US\$6,580 millions, representing 35% of Flash s (NAND + NOR) market share.

Graphic RAM is a special purpose DDR (GDDR1, GDDR2, GDDR3, GDDR4) as graphic products require high-speed 3-dimensional calculation performance and large memory size as data storage buffer for DVD and computer game display. The current GDDR4 currently is the fastest graphic memory in volume production.

Industry Background

Memory products are integral parts of a wide variety of consumer products and industry applications including personal computer systems, notebooks, workstations and servers, handheld computer devices, cellular phones, camcorders, MP3 music players, digital answering machines and game boxes, DVD player, STB (set-top box), HDTV and PMP, among others. Market trends, such as increased emphasis on high-through put applications, including networking, graphics, multimedia, computer, consumer, and telecommunications products, have created opportunities for high performance memory products. At present, NAND Flash, DDR2 and SDRAM are the major memory products and will continue to be sold in the future for Consumer Electronics, PC field and Home Appliance products, and Samsung is among the world's largest developers and manufacturers of those memory products.

Customers

As of December 31, 2007, the Company had over 120 active customers in Hong Kong and Southern China, the majority of whom are memory product traders and PC/Servers OEM manufacturers. Sales to Aristo Technologies Ltd. (Aristo), a related party, accounted for 11% and 11% of the Company's net sales for the year ended December 31, 2007 and 2006. Other than the Company's most significant customer who accounted for 32% of the Company's net sales for the year ended December 31, 2007, no other customer accounted for more than 25% of the Company's net sales for 2007 and 2006, respectively. In order to control the Company's credit risks, the Company does not offer any credit terms to its customers other than a small number of clients who have long-established business relationships with the Company.

Sales and Marketing

As of December 31, 2007, the Company employed a total of 15 sales and marketing personnel, each of whom has several years experience in the memory products industry. Eight of these salespeople are stationed in the Company's headquarters in Hong Kong, and seven of them work out of the Company's representative office in Shenzhen, China as customer liaisons. These sales personnel co-operate with key memory product retailers and PC/Servers OEM manufacturers to ensure that clients are supplied promptly with Samsung memory products. The Company intends to expand its sales force if levels of business materially increase in the next twelve months.

Market Research

The Company invests significant resources in market research for its own account to provide prompt and accurate market intelligence and feedback on a daily, weekly and monthly basis to Samsung in order to assist Samsung's production planning and products allocation functions and thus maintains a close business relationship with Samsung.

Suppliers

As of December 31, 2007, a majority of the distributed products are Samsung memory products. Since 1993, our procurement operations have been supported by Samsung to ensure there are enough supplies of memory products according to our monthly sales quota although there is no written long-term distribution agreement in place with Samsung. Samsung is allocated quantities of its memory products each year based on anticipated demand for such products by the customers of the various distributors of Samsung memory products in Hong Kong and in the PRC. The distributors that are supported by Samsung provide Samsung with their own annual estimates of product demand. In case of unexpected strong demand in the market exceeding our monthly sales quota, there is no assurance that Samsung will be able to supply sufficient memory products to us and other non-exclusive distributors to meet such demand in excess of Samsung's global allocation policy to Samsung. In the event of a supply shortage, the market prices of such memory products will rise and any loss of income attributable to our inability to fulfill all of our orders would be offset by the increase in income as a result of any increase in the market prices of such memory products.

Atlantic relies on Samsung to supply it with memory products for distribution to its clients. Atlantic's relationship with Samsung is primarily maintained through Mr. Yang, the founder of the Company.

Competition

The memory products industry in the Hong Kong and Southern China markets is very competitive. However, as one of the world's largest memory products manufacturers, Samsung's memory products are competitively priced and have an established reputation for product quality and brandname recognition in the retail and PC/Server OEM & Consumer Electronic segments. The Company, as one of the largest distributors of Samsung's memory products for the Hong Kong and Southern China markets, believes it is in a strong competitive position against other US, European, Japanese and Taiwanese memory products manufacturers and distributors.

Samsung's principal competitors in the Hong Kong and Southern China markets include Hynix and other Taiwanese manufacturers such as Nanya, PSC, Promos, ISSI and ESMT. The Company's principal competitors also include the five other non-exclusive distributors of Samsung memory products in the Hong Kong and Southern China markets. Samsung may, in its sole discretion, increase the number of distributors of its products in Hong Kong and Southern China which would result in increased competition for the Company.

Regulation

As of December 31, 2007, the Company's business operations were not subject to the regulations of any jurisdiction other than the People's Republic of China. Although the Company is not formally authorized to do business in the People's Republic of China, it has been permitted by the Chinese authorities to establish a representative office in Shenzhen, China to carry out liaison works for its customers in Southern China. The Company executes its sales contracts and delivers its products in Hong Kong for its Chinese customers and there have been no restrictions imposed on the Company by the mainland Chinese authorities with respect to the Company's pursuit of business growth and opportunities in China.

Employees

As of December 31, 2007, the Company had 43 employees. Of the 43 employees, 15 employees are in sales and marketing, 13 employees are in administration, 8 employees are in engineering, 7 employees are in customer service and liaison. None of the Company employees are represented by labor unions.

The Company's primary hiring sources for its employees include referrals from existing employees, print and Internet advertising and direct recruiting. All of the Company's employees are highly skilled and educated and subject to rigorous recruiting standards appropriate for a company involved in the distribution of brandname memory products. The Company attracts talent from numerous sources, including higher learning institutions, colleges and industry. Competition for these employees is intense. The Company believes its relationship with its employees to be good. However, the Company's ability to achieve its financial and operational objectives depends in large part upon its continuing ability to attract, integrate, retain and motivate highly qualified personnel, and upon the continued service of its senior management and key personnel, especially Mr. Yang.

Item 1A. Risk Factors

We are subject to a number of risks. Some of these risks are endemic to the high-technology and semiconductor industry and are the same or similar to those disclosed in our previous SEC filings. This section should be read in conjunction with the consolidated financial statements and the accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. The risks and uncertainties set out below are not the only risks and uncertainties we face. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks and investors may lose all or part of their investment. The information included in this Annual Report is provided as of the filing date with the SEC and future events or circumstances could differ significantly from the forward-looking statements included herein.

If our relationship with Samsung is terminated, we may not be able to continue operations.

We rely ultimately on Samsung to provide us with memory products for distribution to our clients though with the consent of Samsung, we can purchase the required memory products from other Samsung distributors and use the same method of calculating commission. Our relationship with Samsung is primarily maintained through our Chairman Mr. Yang Chung Lun, who has verbally agreed to remain with us. If our relationship with Samsung is terminated or if Mr. Yang terminates his employment with us, we may be unable to replace or retain Samsung on favorable terms.

Although we are not an exclusive distributor of Samsung's memory products, we believe we are the largest Samsung memory products distributor for the Hong Kong and Southern China markets. Although the Distribution Agreement is subject to annual renewal at Samsung's option, we do not foresee, based upon the long-term business relationship with Samsung established by Mr. Yang and our sales history with respect to the distribution of Samsung's memory products, any significant obstacles to obtaining renewals of the Distribution Agreement in the foreseeable future. However, no assurances can be given that Samsung will definitely renew the Distribution Agreement or, if renewed,

on terms satisfactory to us.

In addition, Samsung has the right to increase the number of distributors of its memory products in Hong Kong and the Southern China markets without consulting us. If Samsung significantly increases the number of authorized distributors of its memory products, competition among Samsung distributors, would increase and we may not be able to meet our annual sales quota, which could increase the likelihood that Samsung would not renew the Distribution Agreement, or if renewed, that we could operate profitably.

If the growth rate of either memory products sold or the amount of memory used in each product decreases, sales of our products could decrease.

We are dependent on the computer and consumer electronics market as many of the memory products that we distribute are used in PCs or peripheral products. DRAMs are the most widely used semiconductor components in PCs and FLASH products are mostly used in the consumer electronics products. In recent years, the growth rate of PCs sold has slowed or declined. If there is a continued reduction in the growth rate of either PCs sold or the average amount of semiconductor memory included in each PC, sales of our memory products built for those markets could decrease, and our results of operations, cash flows and financial condition could be adversely affected. However, the continued growth of consumer electronics markets over the past several years has favorably affected our operations, cash flow and financial condition.

If Samsung is unable to respond to customer demand for diversified semiconductor memory products or is unable to do so in a cost-effective manner, we may lose market share and our results of operations may be adversely affected.

In recent periods, the semiconductor memory market has become relatively segmented, with diverse memory needs being driven by the different requirements of desktop and notebook PCs, servers, workstations, handheld devices, and communications, industrial and other applications that demand specific memory solutions. Samsung currently offers customers a variety of memory products including DDR, Graphic RAM and FLASH.

Samsung needs to dedicate significant resources to product design and development to respond to customer demand for the continued diversification of memory products. If Samsung is unable or unwilling to invest sufficient resources to meet the diverse memory needs of customers, we, as a Samsung memory products major distributor may lose market share. In addition, as we diversify our product lines, we may encounter difficulties penetrating certain markets, particularly markets where we do not have existing customers. If we are unable to respond to customer demand for market diversification in a cost-effective manner, our results of operations may be adversely affected.

If Samsung's global allocation process results in Samsung not having sufficient supplies of memory products to meet all of our customer orders, this would have a negative impact on our sales and could result in our loss of customers. However, such shortages are infrequent. On the other hand, no assurance can be given that such shortages will not occur in the future.

If Samsung's manufacturing process is disrupted, our results of operations, cash flows and financial condition could be adversely affected.

Samsung manufactures products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process can reduce yields or disrupt production. From time to time, we have experienced minor disruptions in product deliveries from Samsung and we may be unable to meet our customers' requirements and they may purchase products from other suppliers. This could result in loss of revenues or affect our customer relationships.

We are heavily dependent upon the electronics industry, and excess capacity or decreased demand for products produced by this industry could result in increased price competition as well as a decrease in our gross margins and unit volume sales.

Our business is heavily dependent on the electronics industry. A majority of our revenues are generated from the networking, high-end computing and computer peripherals segments of the electronics industry, which is characterized by intense competition, relatively short product life-cycles and significant fluctuations in product demand. Furthermore, these segments are subject to economic cycles, which have occurred in the past and are likely to occur in the future. A recession or any other event leading to excess capacity or a downturn in these segments of the electronics industry could result in intensified price competition, a decrease in our gross margins and unit volume sales and materially affect our business, prospects, financial condition and results of operations.

The memory product industry is highly competitive.

We face intense competition from a number of companies, some of which are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor memory market, invest in technology and capitalize on growth opportunities. To the extent Samsung memory products become less competitive, our ability to effectively compete against distributors of other memory products will diminish.

Current economic and political conditions may harm our business.

Global economic conditions and the effects of military or terrorist actions may cause significant disruptions to worldwide commerce. If these disruptions result in delays or cancellations of customer orders, a decrease in corporate spending on information technology or our inability to effectively market, manufacture or ship our products, our results of operations, cash flows and financial condition could be adversely affected. In addition, our ability to raise capital for working capital purposes and ongoing operations is dependent upon ready access to capital markets. During times of adverse global economic and political conditions, accessibility to capital markets could decrease. If we are unable to access the capital markets over an extended period of time, we may be unable to fund operations, which could materially adversely affect our results of operations, cash flows and financial condition.

We believe that we will require additional equity financing to reduce our long-term debts and implement our business plan.

We anticipate that we will require additional equity financing in order to reduce our long-term debts and implement our business plan of increasing sales in the Southern China markets. There can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on terms acceptable to us. If we obtain such financing, the holders of our Common Stock may experience substantial dilution.

Our major stockholder controls our business, and could delay, deter or prevent a change of control or other business combination.

One shareholder, Mr. Yang, our Chief Executive Officer and Chairman of the Board of Directors, holds approximately 78.9% of our outstanding Common Stock. By virtue of his stock ownership, Mr. Yang will control all matters submitted to our board and our stockholders, including the election of directors, and will be able to exercise control over our business, policies and affairs. Since he has substantial voting power, he could cause us to take actions that we would not otherwise consider, or could delay, deter or prevent a change of control or other business combination that might otherwise be beneficial to our stockholders.

Our stock price has been volatile and may fluctuate in the future.

There has been significant volatility in the market prices for publicly traded shares of computer related companies, including ours. From September 30, 2003, the effective date of the reverse-acquisition of Atlantic, to March 31, 2008, the closing price of our Common Stock fluctuated from a per share high of \$2.95 to a low of \$0.06 per share. The per share price of our Common Stock may not remain at or exceed current levels. The market price for our Common Stock, and for the stock of electronic companies generally, has been highly volatile. The market price of our Common Stock may be affected by: (1) incidental level of demand and supply of the stock; (2) daily trading volume of the stock; (3) number of public stockholders in our stock; (4) fundamental results announced by ACL; and (5) any other unpredictable and uncontrollable factors.

If additional authorized shares of our Common Stock available for issuance or shares eligible for future sale were introduced into the market, it could hurt our stock price.

We are authorized to issue 50,000,000 shares of Common Stock. As of December 31, 2007, there were 28,329,936 shares of our Common Stock issued and outstanding.

Currently, outstanding shares of Common Stock are eligible for resale. We are unable to estimate the amount, timing or nature of future sales of outstanding Common Stock. Sales of substantial amounts of the Common Stock in the public market by these holders or perceptions that such sales may take place may lower the Common Stock's market price.

If penny stock regulations impose restrictions on the marketability of our Common Stock, the ability of our stockholders to sell shares of our stock could be impaired.

The SEC has adopted regulations that generally define a penny stock to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share subject to certain exceptions. Exceptions include equity securities issued by an issuer that has (i) net tangible assets of at least \$2,000,000, if such issuer has been in continuous operation for more than three years, or (ii) net tangible assets of at least \$5,000,000, if such issuer has been in continuous operation for less than three years, or (iii) average revenue of at least \$6,000,000 for the preceding three years. Unless an exception is available, the regulations require that prior to any transaction involving a penny stock, a risk of disclosure schedule must be delivered to the buyer explaining the penny stock market and its risks. Our Common Stock is currently trading at under \$5.00 per share. Although we currently fall under one of the exceptions, if at a later time we fail to meet one of the exceptions, our Common Stock will be considered a penny stock. As such the market liquidity for the Common Stock will be limited to the ability of broker-dealers to sell it in compliance with the above-mentioned disclosure requirements.

You should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

Control of the market for the security by one or a few broker-dealers;

Boiler room practices involving high-pressure sales tactics;
Manipulation of prices through prearranged matching of purchases and sales;
The release of misleading information;
Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
Dumping of securities by broker-dealers after prices have been manipulated to a desired level, which hurts the price of the stock and causes investors to suffer loss.

We are aware of the abuses that have occurred in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, we will strive within the confines of practical limitations to prevent such abuses with respect to our Common Stock.

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Section 203 of the Delaware General Corporation Law may deter a third party from acquiring us.

Section 203 of the Delaware General Corporation Law prohibits a merger with a 15% shareholder within three years of the date such shareholder acquired 15%, unless the merger meets one of several exceptions. The exceptions include, for example, approval by two-thirds of the shareholders (not counting the 15% shareholder), or approval by the Board prior to the 15% shareholder acquiring its 15% ownership. This provision makes it difficult for a potential acquirer to force a merger with or takeover of the Company, and could thus limit the price that certain investors might be willing to pay in the future for shares of our Common Stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal offices occupy approximately 4,989 square feet and are located at B24-B27, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong, which was acquired from Classic, a related party, on July 21, 2006 (see Item 13 Certain Relationships and Related Transactions). Mr. Ben Wong, one of our directors, is also a director of Classic.

We lease a warehouse unit of approximately 1,846 square feet that is located at B14-15, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years, from May 23, 2007 to May 22, 2009, from Lin Chin Hsiung with monthly lease payments of HK\$16,800 (approximately US\$2,154).

We lease a warehouse unit of approximately 873 square feet that is located at B9, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years from Systematic Information Limited expiring on August 31, 2008, with monthly rental payments of HK\$5,000 (approximately US\$641). Mr. Ben Wong, one of our directors, is also a director of Systematic Information Limited.

We lease a warehouse unit of approximately 968 square feet that is located at B10, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease was for two years with Solution Semiconductor (China) Ltd. and expired on March 31, 2009, with monthly rentals of HK\$8,500 (approximately US\$1,090). The lease continues on a month-to-month basis and the Company expects to renew it. Mr. Ben Wong, one of our directors, is also a 99% shareholder of Solution Semiconductor (China) Ltd.

We leased a warehouse unit of approximately 3,000 square feet located at 6/F, Kevin Wong Development Building, 11 Tai Yip Street, Kwun Tong, Kowloon, Hong Kong. The lease was for two years with Kevin Wong Holding Limited and expired on January 24, 2009, with monthly rental payments of HK\$12,800 (approximately US\$1,641).

We lease an office unit of approximately 2,682.9 square feet that is located at Room 2208, 22/F., Building A, United Plaza, No.5022 Binhe Road, Futian Centre, Shenzhen, China. The lease is from August 24, 2007 to August 23, 2010 with monthly lease payments of RMB20,122 (approximately US\$2,719).

We own an investment property of approximately 3,000 square feet located at No. 76, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong, which is leased to Macdermid Hong Kong Limited from August 1, 2007 to August 31, 2009 with monthly lease income of HK\$58,000 (approximately US\$7,436).

We own a property of approximately 3,000 square feet that is used for Mr. Yang's personal residence and is located at No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong.

In the event that the above facilities become unavailable, we believe that alternative facilities could be obtained on a competitive basis.

Item 3. Legal Proceedings

In the ordinary course of business the Company may be subject to litigation from time to time. There is no past, pending or, to the Company's knowledge, threatened litigation or administrative action (including litigation or action involving the Company's officers, directors or other key personnel) which in the Company's opinion has, had, or is expected to have, a material adverse effect upon its business, prospects, financial condition or operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the three months ended December 31, 2007.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

| Quarters ended | High | Low |
|--|-------------|------------|
| Quarter ended March 31, 2008 | | |
| Quarter ended March 31, 2008 | \$0.12 | \$0.12 |
| Fiscal Year ended December 31, 2007 | | |
| Quarter ended December 31, 2007 | \$0.09 | \$0.08 |
| Quarter ended September 30, 2007 | \$0.12 | \$0.12 |
| Quarter ended June 30, 2007 | \$0.12 | \$0.10 |
| Quarter ended March 31, 2007 | \$0.10 | \$0.10 |
| Fiscal Year ended December 31, 2006 | | |
| Quarter ended December 31, 2006 | \$0.18 | \$0.07 |
| Quarter ended September 30, 2006 | \$0.13 | \$0.08 |
| Quarter ended June 30, 2006 | \$0.24 | \$0.11 |
| Quarter ended March 31, 2006 | \$0.27 | \$0.12 |

Stock price information has been derived from Yahoo Finance. Such quotations reflect inter-dealer bids, without retail mark-up, mark-down or commissions, and may not reflect actual transactions.

As of April 11, 2008, the last reported sale price of our Common Stock, as reported by the OTC Bulletin Board, was \$0.17 per share.

As of April 11, 2008, there were approximately 211 holders of record of our Common Stock.

Dividend Policy

Since our recapitalization with Atlantic, effective September 30, 2003, we have never paid cash dividends on our Common Stock. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.

Equity Compensation Plan Information**2006 STOCK OPTION PLAN**

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the Plan) and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to

employees, directors and consultants and to promote the success of the Company's business. The Plan permits the Company to grant both incentive stock options (Incentive Stock Options or ISOs) within the meaning of Section 422 of the Internal Revenue Code (the Code), and other options which do not qualify as Incentive Stock Options (the Non-Qualified Options) and stock awards.

Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 31, 2016, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board of Director's discretion, by a committee of the Board of Directors consisting of at least two persons who are disinterested persons defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the Committee).

Recipients of options under the Plan (Optionees) are selected by the Board of Directors or the Committee. The Board of Directors or Committee determines the terms of each option grant, including (1) the purchase price of shares subject to options, (2) the dates on which options become exercisable and (3) the expiration date of each option (which may not exceed ten years from the date of grant). The minimum per share purchase price of options granted under the Plan for Incentive Stock Options and Non-Qualified Options is the fair market value (as defined in the Plan) on the date the option is granted.

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier's check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization or similar corporate event.

The Board of Directors may at any time terminate the Plan or from time to time make such modifications or amendments to the Plan as it may deem advisable and the Board of Directors or Committee may adjust, reduce, cancel and regrant an unexercised option if the fair market value declines below the exercise price except as may be required by any national stock exchange or national market association on which the Common Stock is then listed. In no event may the Board of Directors, without the approval of stockholders, amend the Plan if required by any federal, state, local or foreign laws or regulations or any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where options or stock purchase rights are granted under the Plan.

Subject to limitations set forth in the Plan, the terms of option agreements will be determined by the Board of Directors or Committee, and need not be uniform among Optionees.

As of December 31, 2007, there were no options outstanding under the Plan.

Item 6. Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this report contain forward-looking information that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, product demand, market acceptance and other factors discussed in this report under the heading Risk Factors. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and the related notes included elsewhere in this report.

Overview

Corporate Background

We are engaged primarily in the business of distribution of memory products under the Samsung brand name which comprise DRAM, Graphic RAM and FLASH for the Hong Kong and Southern China markets.

As of December 31, 2007, we had over 120 active customers in Hong Kong and Southern China.

Depending on the product specifications, pricing for the Samsung memory products range from approximately \$0.17 to \$750. We also sell our products in Hong Kong and Southern China and do not anticipate selling our products outside of these regions in the foreseeable future.

For the years ended December 31, 2007 and 2006, the largest 5 customers accounted for 61% and 41% of our net sales, respectively. As of December 31, 2007, we had net current liabilities of \$28,966,568 and an accumulated deficit of \$1,638,177. We generated net sales of \$160,404,924 for the year ended December 31, 2007 and recorded a net

income of \$436,092. In addition, during the year ended December 31, 2007, net cash provided by operating activities amounted to \$1,125,907.

We are in the mature stage of operations and, as a result, the relationships between revenue, cost of revenue, and operating expenses reflected in the financial information included in this document to a large extent represent future expected financial relationships. Much of the cost of sales and operating expenses reflected in our consolidated financial statements are recurring costs in nature.

Plan of Operations

Our business objectives are to offer updated market intelligence to Samsung in connection with the Hong Kong and Southern China markets demand in memory products and secure high-quality Samsung products in order to meet the market demands of individual and corporate users in Hong Kong and Southern China. Each quarter, we work closely with Samsung to present updated market information collected from retail channels and corporate users to assist Samsung to plan their production and allocation schedule six months in advance. Our business strategy is to assist Samsung in implementing their production planning using market intelligence to balance the supply and demand of memory products in the Hong Kong and Southern China markets. Accordingly, we maintain and develop a sales and market research team to answer marketing questions from Samsung on a regular basis. In addition, our established distribution channels covering retail outlets and major corporate users in the region allow those retail or ultimate customers a secure stable supply of Samsung's memory products with competitive prices. We are a non-exclusive distributor of Samsung, and enjoy a minimum guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in form of sales rebate payable by Samsung.

Net sales

Net sales are recognized upon the transfer of legal title of the electronic components to customers. As of December 31, 2007 we had over 120 active customers.

Net sales for fiscal year 2007 were \$160,404,924, which increased by 52% or \$54,762,801 compared to fiscal year 2006. The turnover has met the Company's expectation for 2007 in general.

The memory unit price kept decreasing through a product's life cycle and as a result the actual units sold increased in proportion to the decrease in unit price. The Company's gross profit margin had decreased from an average 3.8% to 2.41% year-on-year base.

The Company experienced a strong demand in China in FLASH products which it is mostly used in the consumer electronics market like mobile phone; PDA and MP3 players. The market is moving towards higher capacity of FLASH component usage. The Flash component trading contributed to the increase in sales of the Company. This occurred because of a fall in the unit price of Flash component which resulted in an increase in its application and demand. The market is sensitive to any price change and it was profitable for any Flash card manufacturer entering a mature market where Flash component price contributed to most of the cost. We are expecting shortage of high capacity FLASH components as APPLE will launch new version of I-Phone and I-Pod during second half of 2008.

The DRAM business also obtained a strong demand as there was a large consumer electronic market with key applications being HDTV, DVD player GPS System and set-top boxes. On the PC front, the overall VGA RAM sales increased as the newly launched Vista required VGA card with higher speed and larger capacity.

Cost of Sales

Cost of revenues consists of costs of goods purchased from our principal supplier, Samsung and purchases from other Samsung authorized distributors. Many factors affect our gross margin, including, but not limited to, the volume of production orders placed on behalf of our customers, the competitiveness of the memory products industry and the availability of cheaper Samsung memory products from overseas Samsung distributors due to regional demand and supply situation. Nevertheless, our procurement operations are supported by Samsung, although there is no written long-term supply agreement in place between us and Samsung. Our cost of goods, as a percentage of total revenues, amounted to approximately 97.6% for the year ended December 31, 2007 and approximately 96.1% for the year ended December 31, 2006.

Operating Expenses

Our operating expenses for the years ended December 31, 2007 and 2006 were comprised of sales and marketing, general and administrative expenses.

Selling and marketing expenses consisted primarily of commissions paid to outside sales agent and salary expenses to customer service personnel and costs associated with advertising and marketing activities.

General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations and provide an infrastructure to support future growth. Major items in this category include management and staff salaries, rent/leases, professional services, and travel and entertainment. We expect these expenses to remain at approximately the same level in 2008. Sales and marketing costs are expected to fluctuate due to the addition of sales personnel and various marketing activities planned throughout the year.

Interest expense, including finance charges, relate primarily to our short-term and long-term bank borrowings.

Critical Accounting Policies

The U.S. Securities and Exchange Commission (SEC) recently issued Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* (FRR 60), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; policies for revenue recognition, and allowance for doubtful accounts. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on our results we report in our consolidated financial statements.

Revenue Recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectibility is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. This policy requires us to make estimates regarding the market value of our inventories, including an assessment of excess or obsolete inventories. We determine excess and obsolete inventories based on an estimate of the future demand for our products within a specified time horizon, generally 12 months. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with our revenue forecasts. If our demand forecast is greater than our actual demand we may be required to take additional excess inventory charges, which will decrease gross margin and net operating results in the future. In addition, as a result of the downturn in demand for our products, we have excess capacity in our manufacturing facilities. Currently, we are not capitalizing any inventory costs related to this excess capacity as the recoverability of such costs is not certain. The application of this policy adversely affects our gross margin.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed our historical experience, our estimates could change and impact our reported results.

Results of Operations

The following table sets forth audited consolidated statements of operations data for the years ended December 31, 2007 and 2006 and should be read in conjunction with **Management's Discussion and Analysis of Financial Condition and Results of Operations** and our financial statements and the related notes appearing elsewhere in this document.

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| | Year Ended December 31, | |
|--------------------------------------|-------------------------|----------------|
| | (US\$) | |
| | 2007 | 2006 |
| Net sales | \$ 160,404,924 | \$ 105,642,123 |
| Cost of sales | 156,553,635 | 101,544,098 |
| Gross profit | 3,871,289 | 4,098,025 |
| Operating expenses: | | |
| Sales and marketing | 69,260 | 791,367 |
| General and administrative | 2,942,542 | 2,272,057 |
| Total operating expenses | 3,011,802 | 3,063,424 |
| Income from operations | 859,487 | 1,034,601 |
| Other income (expenses) | (235,562) | (420,782) |
| Income before income taxes provision | 623,925 | 613,819 |
| Income taxes provision | 187,833 | 163,415 |
| Net income | \$ 436,092 | \$ 450,404 |

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006*Net Sales*

| Year Ended December 31, | | |
|-------------------------|---------------|----------|
| 2007 | 2006 | % Change |
| \$160,404,924 | \$105,642,123 | 51.8% |

Sales increased by \$54,762,801 or 51.8% from \$105,642,123 for year ended December 31, 2006 to \$160,404,924 for the year ended December 31, 2007. The increase was mainly due to increased sales to OEM factories in Hong Kong and South China areas, resulting in a higher turnover when compared to the year ended December 31, 2006.

Cost of Sales

| Year Ended December 31, | | |
|-------------------------|---------------|----------|
| 2007 | 2006 | % Change |
| \$156,533,635 | \$101,544,098 | 54.2% |

Cost of sales increased \$54,989,537 or 54.2%, from \$101,544,098 for the year ended December 31, 2006 to \$156,533,635 for the year ended December 31, 2007. The cost of sales increased in proportion to the increase of net sales and reduction of commission by Samsung from 2.4% to 1.8%.

Gross Profit

| Year Ended December 31, | | |
|-------------------------|-------------|----------|
| 2007 | 2006 | % Change |
| \$3,871,289 | \$4,098,025 | -5.5% |

Gross profit decreased by \$226,736 or 5.5% from \$4,098,025 for the year ended December 31, 2006 to \$3,871,289 for the year ended December 31, 2007. The gross profit percentage decreased to 2.4% of revenue for the year ended December 31, 2007 compared to 3.9% of revenue for the year ended December 31, 2006, as a result of reduction of commission by Samsung from 2.4% to 1.8% and special marketing effort of Samsung products to several 1st tier manufacturers in China which occurred during the year. We expect the gross profit for the year ended December 31, 2008 to remain at approximately the same level as the year ended December 31, 2007.

Sales and Marketing

| Year Ended December 31, | | |
|-------------------------|-----------|----------|
| 2007 | 2006 | % Change |
| \$69,260 | \$791,367 | -91.2% |

Sales and marketing expenses decreased by \$722,107, or 91.2%, from \$791,367 for the year ended December 31, 2006 to \$69,260 for the year ended December 31, 2007. The decrease was principally attributable to the decreased sales commission expenses incurred for the year 2007. We expect the sales and marketing expenses for the year ended December 31, 2008 to remain at approximately the same level as the year ended December 31, 2007.

General and Administrative

| Year Ended December 31, | | |
|-------------------------|-------------|----------|
| 2007 | 2006 | % Change |
| \$2,942,542 | \$2,272,057 | 29.5% |

General and administrative expenses increased \$670,485 or 29.5% from \$2,272,057 for the year ended December 31, 2006 to \$2,942,542 for the year ended December 31, 2007. This increase was primarily attributable to an increase in depreciation, director's remuneration and salary expenses during the year 2007. We will continue to keep general and administrative expenses for the year ended December 31, 2008 at approximately the same level as the year ended December 31, 2007.

Income from Operations

| Year Ended December 31, | | |
|-------------------------|-------------|----------|
| 2007 | 2006 | % Change |
| \$859,487 | \$1,034,601 | -16.9% |

Income from operations was \$859,487 for the year ended December 31, 2007 compared to \$1,034,601 for the year ended December 31, 2006, a decrease of income of \$175,114. The decrease was mainly due to decrease in Samsung Commission and increase of operating expenses.

Interest Expense

| Year Ended December 31, | | |
|-------------------------|-----------|----------|
| 2007 | 2006 | % Change |
| \$1,009,006 | \$688,693 | 46.5% |

Interest expense increased \$320,313, or 46.5% from interest expense of \$688,693 in the year ended December 31, 2006, to \$1,009,006 in the year ended December 31, 2007. The increase was mainly due to an increase in the Company's need to open and draw down on letters of credits to obtain goods from its suppliers. We expect we will increase the interest expense for the year ended December 31, 2008 because of an increase in bank lines of credit and loan facilities.

Unrealized Gains on Pledged Marketable Securities

| Year Ended December 31, | | |
|-------------------------|------|----------|
| 2007 | 2006 | % Change |
| \$404,780 | \$ | N/A |

Unrealized gain on pledged marketable securities increased by \$404,780 from \$0 in the year ended December 31, 2006, to \$404,780 in the year ended December 31, 2007. The increase was mainly attributable to the increase in the market value as of December 31, 2007 over the cost of purchase of certain securities pledged by the Company in favor of Hang Seng Bank Limited (Hang Seng) (see Note 3 in the Financial Statements).

Net Income on Cash Flow Hedge

| Year Ended December 31, | | |
|-------------------------|------|----------|
| 2007 | 2006 | % Change |
| \$64,590 | \$ | N/A |

Net income on cash flow hedge increased by \$64,590 from \$0 in the year ended December 31, 2006 to \$64,590 in the year ended December 31, 2007. This increase was due to the Company entering into more currency hedging contracts through DBS and SCB bank in 2007. Details of the currency hedging contracts can be found in Note 11 on page F-21.

Interest Income

| Year Ended December 31, | | |
|-------------------------|----------|----------|
| 2007 | 2006 | % Change |
| \$169,055 | \$79,838 | 111.7% |

Interest income increased by \$89,217 from \$79,838 in the year ended December 31, 2006 to \$169,055 in the year ended December 31, 2007, principally as a result of increased of bank deposits and interest rates during the year 2007.

Income Tax Provision

| Year Ended December 31, | | |
|-------------------------|-----------|----------|
| 2007 | 2006 | % Change |
| \$187,833 | \$163,415 | 14.9% |

Income tax provision increased by \$24,418 from \$163,415 for the year ended December 31, 2006 to \$187,833 for the year ended December 31, 2007. The provision was estimated by the profits of Atlantic for the year ended.

Net Income

| Year Ended December 31, | | |
|-------------------------|-----------|----------|
| 2007 | 2006 | % Change |
| \$436,092 | \$450,404 | -3.2% |

Our net income decreased by \$14,312 from the \$450,440 for the year ended December 31, 2006 compared to \$436,092 for the year ended December 31, 2007. The decrease was mainly due to the decrease in profit margin.

Liquidity and capital resources

Our principal sources of liquidity have been cash from operations, bank lines of credit and credit terms from suppliers. Our principal uses of cash have been for operations and working capital. We anticipate these uses will continue to be our principal uses of cash in the future.

As of December 31, 2007, the Company had revolving lines of credit and loan facilities in the aggregate amount of \$25,023,076, of which \$6,353,495 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures regarding our outstanding credit facilities are set forth in Notes 3 and 4 of the Notes to Consolidated Financial Statements on pages F-16 to F-18, including the amounts of the facilities, outstanding balances, interest rates, maturity periods (for long term loans) and pledge of assets. Our ability to draw down under our various credit and loan facilities is, in each case, subject to the ongoing willingness of the relevant lending institution to make advances thereunder, and security coverage ratios as required from time to time. No assurance can be given that we will continue to have access to these or other lines of credit in the same amount or at all.

The short-term borrowings from banks to finance the cash flow required to finance the purchase of Samsung memory products from Samsung HK must be made a day in advance of the release of goods from Samsung HK's warehouse before receiving payments from customers upon physical delivery of such goods in Hong Kong which, in most instances, take approximately two days from the date of such delivery.

The following factors, among others, could have negative impacts on the Company's results of operations and financial position: the termination or change in terms of the Distributorship Agreement; pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for Samsung's memory products; the Company's ability to attract new customers; an increase in competition in the memory products market; and the ability of some of the Company's customers to obtain financing.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform them to actual results or to make changes in our expectations.

Net Cash Provided by Operating Activities

In the year ended December 31, 2007, net cash provided by operating activities amounted to \$1,125,907 while in the year ended December 31, 2006, net cash used for operating activities amounted to \$6,287,126, an increase of \$7,413,033. This increase was primarily due to increase of accounts payable and accounts receivables at the end of 2007.

Net Cash Used for Investing Activities

In the year ended December 31, 2007, net cash used for investing activities amounted to \$6,412,547 while in the year ended December 31, 2006, net cash provided by investing activities amounted to \$4,756,596, an increase in cash used \$1,655,951. Increase was primarily due to the increase of purchases of fixed assets, restricted cash deposited and restricted marketable securities with the bank as part of the terms of bank borrowings during the year 2007.

Net Cash Provided by Financing Activities

In the year ended December 31, 2007, net cash provided by financing activities amounted to \$5,436,828 while in the year ended December 31, 2006, net cash used for financing activities was \$9,953,409, a decrease of \$4,516,581. Decrease was primarily due to increase of advance on long-term debt and borrowings on the lines of credit and loan facilities.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2007 over the next five years and thereafter:

Payments by Period

| | Amount | Less Than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---------------|-------------------------|------------------|------------------|----------------------|
| Operating Leases | 166,774 | 94,700 | 72,074 | — | — |
| Line of credit and notes payable short-term | 15,610,488 | 15,610,488 | — | — | — |
| Short term loans | 252,770 | 252,770 | — | — | — |
| Long term loans | 2,769,440 | 180,228 | 340,590 | 247,570 | 2,001,052 |
| Total Contractual Obligations | \$18,799,472 | \$16,138,186 | \$412,664 | \$247,570 | \$2,001,052 |

Off-Balance Sheet Arrangements

None.

Related Party Transactions

We conduct business with several affiliated companies. All the related party transactions taking place during the reporting periods were conducted during the normal course of business. The prices of products sold to or purchased from these related entities are in the same price ranges as those offered to other non-related customers or purchased from other vendors.

Dependence of Samsung

We are highly dependent on the product supplies from Samsung. If the relationship with Samsung is terminated, we may not be able to continue our business. We have been taking necessary steps to reduce our dependence on Samsung, including looking into the potential acquisition of a company.

Impact of Inflation

We believe that our results of operations are not dependent upon moderate changes in inflation rates as we expect to be able to pass along component price increases to our customers.

Seasonality

We have not experienced any material seasonality in sales fluctuations over the past 2 years in the memory products markets.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159)*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organization shall report unrealized gains and losses in its statement of activities or similar statement. SFAS 159 applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Company does not anticipate that this new SFAS will have any material impact upon its financial condition or results of operations.

In February 2007, the FASB issued FSP FAS 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*. This FSP updates the illustrations contained in Appendix B of FASB Statement No. 87, *Employers Accounting for Pensions*, Appendix B of FASB Statement No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and Appendix C of FASB Statement No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, to reflect the provisions of FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. This FSP also amends the questions and answers contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers Accounting for Pensions*, *A Guide to Implementation of Statement 88 on Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and *A Guide to Implementation of Statement 106 on Employers Accounting for Postretirement Benefits Other Than Pensions*, and incorporates them into Statements 87, 88, and 106 as Appendixes E, C, and F, respectively. This FSP supersedes those FASB Special Reports. Finally, this FSP makes conforming changes to other guidance and technical corrections to Statement 158. This FSP does not provide additional implementation guidance for Statement 158 beyond the conforming changes, nor does it change any of the provisions of Statement 158. The conforming amendments made by this FSP are effective as of the effective dates of Statement 158. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39 to certain modifications to FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts* and whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with paragraph 10 of Interpretation 39. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007, with early application permitted. The Company does not anticipate that the guidance in this new FSP will have any material impact upon its financial condition or results of operations.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* to amend FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in this FSP shall be applied upon the initial adoption of Interpretation 48. The Company does not anticipate that the guidance in this new FSP will have any material impact upon its financial condition or results of operations.

In May 2007, the FASB issued FSP FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* to address the application of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, by an entity that accounts for its investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In November 2007, the SEC released Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). SAB 109 provides interpretive guidance on the SEC's views regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. This SAB supersedes SAB 105 and expresses the current view of the SEC that, consistent with the guidance in Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets*, and Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. This SAB retains that SEC's view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. SAB 109 shall apply to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not anticipate that this new SAB will have any material impact upon its

financial condition or results of operations.

In December 2007, the SEC released Staff Accounting Bulletin No. 110, *Certain Assumptions Used In Valuation Methods* (SAB 110). SAB 110 provides interpretive guidance on the SEC's views regarding the use of a simplified method, as discussed in SAB No. 107 (SAB 107), in developing an estimate of expected term of plain vanilla share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*. In particular, SAB 107 will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, SEC believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, SEC stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. SEC understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company does not anticipate that this new SAB will have any material impact upon its financial condition or results of operations.

In December 2007, the FASB revised Statement No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). The objective of SFAS 141(R) is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this Statement establishes principles and requirements for how the acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree

- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase

- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company does not anticipate that this revised SFAS will have any material impact upon its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 . The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require:

- The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income.

- Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions.

- When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment.

- Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). The Company does not anticipate that this new SFAS will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* . This FASB Staff Position (FSP) defers the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* , for certain nonpublic enterprises as defined in paragraph 289, as amended, of FASB Statement No. 109, *Accounting for Income Taxes* , including nonpublic not-for-profit organizations. This FSP shall be effective upon issuance. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* . This FSP applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. This FSP shall

be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. This FSP amends SFAS No. 157, Fair Value Measurements, to exclude FASB Statement No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, Business Combinations, or No. 141 (revised 2007), Business Combinations, regardless of whether those assets and liabilities are related to leases. This FSP shall be effective upon the initial adoption of Statement 157. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FASB Staff Position (FSP) delays the effective date of FASB Statement No. 157, Fair Value Measurements, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP shall be effective upon issuance. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 8. Financial Statements and Supplementary Data

Attached hereto and filed as a part of this Annual Report on Form 10-K are our Consolidated Financial Statements, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9AT. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Management Report on Internal Controls over Financial Reporting

In connection with the preparation of this Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. This evaluation was retrospective and conducted as of December 31, 2008, the last day of the fiscal year covered by this Form 10-K. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of December 31, 2007 because we have not completed the remediation discussed elsewhere in this Item 9AT of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Our management has concluded that there are material weaknesses in our internal controls over financial reporting. These weaknesses include:

Company-level controls. We did not maintain effective company-level controls as defined in the Internal Control Integrated Framework published by COSO. These deficiencies related to each of the five components of

internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring). These deficiencies resulted in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

Our control environment did not sufficiently promote effective internal control over financial reporting throughout our organizational structure, and this material weakness was a contributing factor to the other material weaknesses described in this Item 9AT;

Our board of directors has not established adequate financial reporting monitoring activities to mitigate the risk of management override, specifically:

- none of our board of directors is independent;
- no financial expert on our board of directors has been designated;
- no formally documented financial analysis is presented to our board of directors, specifically fluctuation, variance, trend analysis or business performance reviews;
- an effective whistleblower program has not been established;
- there is insufficient oversight of external audit specifically related to fees, scope of activities, executive sessions, and monitoring of results;
- there is insufficient oversight of accounting principle implementation; and
- there is insufficient review of related party transactions.
- there is insufficient review of recording of stock transactions.

We have not maintained sufficient competent evidence to support the effective operation of our internal controls over financial reporting, specifically related to our board of directors oversight of quarterly and annual SEC filings; and management's review of SEC filings, journal entries, account analyses and reconciliations, and critical spreadsheet controls;

We had inadequate risk assessment controls, including inadequate mechanisms for anticipating and identifying financial reporting risks; and for reacting to changes in the operating environment that could have a material effect on financial reporting;

There was inadequate communication from management to employees regarding the general importance of controls and employees duties and control responsibilities;

We had inadequate monitoring controls, including inadequate staffing and procedures to ensure periodic evaluations of internal controls to ensure that appropriate personnel regularly obtain evidence that controls are functioning effectively and that identified control deficiencies are remediated timely;

We had an inadequate number of trained finance and accounting personnel with appropriate expertise in U.S. generally accepted accounting principles. Accordingly, in certain circumstances, an effective secondary review of technical accounting matters was not performed;

We had inadequate controls over our management information systems related to program changes, segregation of duties, and access controls;

We had inadequate access and change controls over end-user computing spreadsheets. Specifically, our controls over the completeness, accuracy, validity and restricted access and review of certain spreadsheets used in the period-end financial statement preparation and reporting process were not designed appropriately or did not operate as designed; and

We were unable to assess effectiveness of our internal control over financial reporting in a timely matter.

Financial statement preparation and review procedures. We had inadequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we had insufficient: a) levels of supporting documentation; b) review and supervision within the accounting and finance departments; c) preparation and review of footnote disclosures accompanying our financial statements; and d) technical accounting resources. These deficiencies resulted in errors in the financial statements and more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected.

Inadequate reviews of account reconciliations, analyses and journal entries. We had inadequate review procedures over account reconciliations, account and transaction analyses, and journal entries. Specifically, deficiencies were noted in the following areas: a) management review of supporting documentation, calculations and assumptions used to prepare the financial statements, including spreadsheets and account analyses; and b) management review of journal entries recorded during the financial statement preparation process. These deficiencies resulted in a more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected.

Inadequate controls over purchases and disbursements. We had inadequate controls over the segregation of duties and authorization of purchases, and the disbursement of funds. These weaknesses increase the likelihood that misappropriation of assets and/or unauthorized purchases and disbursements could occur and not be detected in a timely manner. These deficiencies resulted in errors in the financial statements and in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

We had inadequate procedures and controls to ensure proper segregation of duties within our purchasing and disbursements processes and accounting systems;

We had inadequate procedures and controls to ensure proper authorization of purchase orders; and
We had inadequate approvals for payment of invoices and wire transfers.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

As of December 31, 2007, we had not completed the remediation of any of these material weaknesses. In addition, although we are including our management report in this Annual Report on Form 10K/A, our failure to file a management report for the periods ended December 31, 2008 and December 31, 2007 in a timely manner renders our disclosure controls and procedures ineffective.

We are addressing the outstanding material weaknesses described above, as well as our control environment. We also expect to undertake the following remediation efforts:

We plan to evaluate the composition of our board of directors and to determine whether to add independent directors or to replace an inside director with an independent director, in both cases, in order to have a majority of our board of directors become independent;

We plan on drafting quarterly financial statement variance analysis of actual versus budget with relevant explanations of variances for distribution to our board of directors.

We are in the process of developing, documenting, and communicating a formal whistleblower program to employees. We expect to post the policy on the Company web site in the governance section and in the common areas in the office. We plan on providing a toll free number for reporting complaints and will hire a specific third party whistleblower company to monitor the hotline and provide monthly reports of activity to our board of directors.

Management intends to continue to provide SEC and US GAAP training for employees and retain external consultants with appropriate SEC and US GAAP expertise to assist in financial statement review, account analysis review, review and filing of SEC reports, policy and procedure compilation assistance, and other related advisory services.

We intend on developing an internal control over financial reporting evidence policy and procedures which contemplates, among other items, a listing of all identified key internal controls over financial reporting, assignment of responsibility to process owners within the Company, communication of such listing to all applicable personnel, and specific policies and procedures around the nature and retention of evidence of the operation of controls.

We intend on undertaking a restricted access review to analyze all financial modules and the list of persons authorized to have edit access to each. We will remove or add authorized personnel as appropriate to mitigate the risks of management or other override.

We plan to re-assign roles and responsibilities in order to improve segregation of duties.

These specific actions are part of an overall program that we are currently developing in an effort to remediate the material weaknesses described above. We likely will not have sufficient time to implement our remediation plan before testing our internal control over financial reporting for our current fiscal year that will end December 31, 2009.

Attached as exhibits to this report are certifications of our CEO and CFO, which are required in accordance with Rule 13a-14 of Securities Exchange Act of 1934, as amended. The discussion above in this Item 9AT includes information concerning the controls and controls evaluation referred to in the certifications and those certifications should be read in conjunction with this Item 9AT for a more complete understanding of the topics presented.

We are committed to improving our internal control processes and will continue to diligently review our internal control over financial reporting and our disclosure controls and procedures. The failure to implement adequate controls may result in deficient and inaccurate reports under the Exchange Act.

Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance****Directors and Executive Officers**

Our directors and executive officers, as of December 31, 2007, and their biographical information are set forth below:

| NAME | AGE | POSITION |
|----------------------|------------|--|
| Chung-Lun Yang | 46 | Chairman of the Board of Directors and Chief Executive Officer |
| Ben Wong | 44 | Director |
| Kenneth Lap-Yin Chan | 45 | Chief Financial Officer |

Chung-Lun Yang, Chairman of the Board and Chief Executive Officer. Mr. Yang became a Director on September 30, 2003. Mr. Yang is the founder of Atlantic and has been a director of Atlantic since 1991. Mr. Yang graduated from The Hong Kong Polytechnic in 1982 with a degree in electronic engineering. From October 1982 until April 1985, he was the sales engineer of Karin Electronics Supplies Ltd. From June 1986 until September 1991, he was Director of Sales (Samsung Components Distribution) of Evertech Holdings Limited, a Hong Kong based company. Mr. Yang has over 15 years extensive experience in the electronics distribution business. Mr. Yang is also a member of The Institution of Electrical Engineers, United Kingdom.

Ben Wong, Director. Mr. Wong became a Director on September 30, 2003. Since 1992, Mr. Wong has been the vice-president of Atlantic and is responsible for the purchasing, sales and marketing of Atlantic's products. Mr. Wong graduated from the Chinese Culture University of Taiwan in 1986 with a Bachelor's Degree of Science in Mechanical Engineering.

Kenneth Lap-Yin Chan, Chief Financial Officer. Mr. Chan was appointed our Chief Financial Officer effective September 30, 2003. Mr. Chan has been with Atlantic since 2001 serving as Financial Controller. From 1998 to 2001, Mr. Chan worked for Standard Chartered Bank. Prior to September 2001, Mr. Chan worked for a number of other banks in Hong Kong, including Dao Heng Bank and Asia Commercial Bank. He has more than 12 years of experience in corporate and commercial finance. Mr. Chan graduated from the University of Toronto in 1986 with a Bachelor's Degree in Commerce.

Each director holds office (subject to our By-Laws) until the next annual meeting of shareholders and until such director's successor has been elected and qualified. All of our executive officers are serving until the next annual meeting of directors and until their successors have been duly elected and qualified. There are no family relationships between any of our directors and executive officers.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments, orders or decrees material to the evaluation of the ability and integrity of any director or executive officer of the Company during the past five years.

Board Meetings

During the fiscal year ended December 31, 2007, our Board of Directors held 4 meetings. No director who served during the fiscal year ended December 31, 2007 attended fewer than 75% of the meetings of the Board of Directors during that year.

Committees of The Board

Our Board of Directors does not have a separate Compensation Committee, Audit Committee or Nominating Committee. All of the members of our Board of Directors are acting as our audit committee. None of the members of our Board of Directors is deemed an audit committee financial expert. We are in the process of recruiting an appropriate candidate to be our audit committee financial expert. Our Board of Directors plans to expand the number of members on the board and create an independent Compensation Committee, Audit Committee and a Nominating Committee.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics, known as our Code of Business Conduct and Ethics which applies to all of our directors, officers, and employees, including our principal executive officer and our principal financial and accounting officer. A copy of the Code of Business Conduct and Ethics is attached as Exhibit 14 to the Annual Report on Form 10-K for the period ended December 31, 2003. To receive a copy of our Code of Business Conduct and Ethics, at no cost, requests should be directed to the Secretary, ACL Semiconductor, Inc., B24-B27,1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon, Hong Kong. We intend to disclose any amendment to, or waiver of, a provision of the Code of Business Conduct and Ethics in a report filed under the Securities Exchange Act of 1934, as amended, within five business days of the amendment or waiver.

Stockholder Communications

Stockholders and other interested parties may contact the Board of Directors or the non-management directors as a group at the following address: Board of Directors or Outside Directors, ACL Semiconductor, Inc., B24-B27,1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon, Hong Kong. All communications received at the above address will be relayed to the Board of Directors or the non-management directors, respectively. Communications regarding accounting, internal accounting controls or auditing matters may also be reported to the Board of Directors using the above address.

Typically, we do not forward to our directors communications from our stockholders or other communications which are of a personal nature or not related to the duties and responsibilities of the Board, including:

- Junk mail and mass mailings
- New product suggestions
- Resumes and other forms of job inquiries
- Opinion surveys and polls
- Business solicitations or advertisements

Compliance with Section 16(A) of The Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities (collectively, Reporting Person) to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities of the Company. Reporting Persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that during fiscal year ended December 31, 2007 all Reporting Persons complied with all applicable filing requirements.

Item 11. Executive Compensation COMPENSATION DISCUSSION AND ANALYSIS

Summary

Our approach to executive compensation is influenced by our belief in rewarding people for consistently strong execution and performance. We believe that the ability to attract and retain qualified executive officers and other key employees is essential to our long term success.

Our plan to obtain and retain highly skilled employees is to provide significant market competitive salaries and also incentive awards. Our approach is to link individual employee objectives with overall company strategies and results, and to reward executive officers and significant employees for their individual contributions to those strategies and results. We use compensation and performance data from comparable companies in the electronics distribution industry to establish market competitive compensation and performance standards for our employees. Furthermore, we believe that equity awards serve to align the interests of our executives with those of our stockholders. As such, we intend for equity to become a key component of our compensation program.

Named Executive Officers

The named executive officers for the fiscal year ended December 31, 2007 are Chung-Lun Yang, our Chief Executive Officer, and Kenneth Lap-Yin Chan, our Chief Financial Officer. These individuals are referred to collectively in this Annual Report on Form 10-K as the Named Executive Officers.

OUR EXECUTIVE COMPENSATION PROGRAM

Overview

The primary elements of our executive compensation program are base salary, incentive cash and stock bonus opportunities and equity incentives typically in the form of stock option grants. Although we provide other types of compensation, these three elements are the principal means by which we provide the Named Executive Officers with compensation opportunities.

The emphasis on the annual bonus opportunity and equity compensation components of the executive compensation program reflect our belief that a large portion of an executive's compensation should be performance-based. This compensation is performance-based because payment is tied to the achievement of corporate performance goals. To the extent that performance goals are not achieved, executives will receive a lesser amount of total compensation. We have entered into employment agreements with three of our Named Executive Officers. Such employment agreements set forth base salaries, bonuses and stock option grants. Such stock option grants are predicated on our achievement of corporate performance goals as set forth in such agreements.

ELEMENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

Base Salary

We pay a base salary to certain of the Named Executive Officers. In general, base salaries for the Named Executive Officers are determined by evaluating the responsibilities of the executive's position, the executive's experience and the competitive marketplace. Base salary adjustments are considered and take into account changes in the executive's responsibilities, the executive's performance and changes in the competitive marketplace. We believe that the base salaries of the Named Executive Officers are appropriate within the context of the compensation elements provided to the executives and because they are at a level which remains competitive in the marketplace.

Bonuses

The Board of Directors may authorize us to give discretionary bonuses, payable in cash or shares of Common Stock, to the Named Executive Officers and other key employees. Such bonuses are designed to motivate the Named Executive Officers and other employees to achieve specified corporate, business unit and/or individual, strategic, operational and other performance objectives.

Stock Options

Stock options constitute performance-based compensation because they have value to the recipient only if the price of our Common Stock increases. We have not granted any stock options to any of our Named Executive Officers and the grant of stock options to Named Executive Officers is not a material factor in making compensation determinations with respect to our Named Executive Officers. However, we use stock options as incentives for our other employees. Stock options generally vest over time, obtainment of a corporate goal or a combination. The grant of stock options is designed to motivate our employees to achieve our short term and long term corporate goals.

Retirement and Deferred Compensation Benefits

We do not have any arrangements with the Named Executive Officers to provide them with retirement and/or deferred compensation benefits.

Perquisites

There were no perquisites provided to the Named Executive Officers.

Post-Termination/Change of Control Compensation

We do not have any arrangements with the Named Executive Officers to provide them with compensation following termination of employment.

Tax Implications of Executive Compensation

Our aggregate deductions for each Named Executive Officer compensation are potentially limited by Section 162(m) of the Internal Revenue Code to the extent the aggregate amount paid to an executive officer exceeds \$1 million, unless it is paid under a predetermined objective performance plan meeting certain requirements, or satisfies one of various other exceptions specified in the Internal Revenue Code. At our 2007 Named Executive Officer compensation levels, we did not believe that Section 162(m) of the Internal Revenue Code would be applicable, and accordingly, we did not consider its impact in determining compensation levels for our Named Executive Officers in 2007.

Hedging Policy

We do not permit the Named Executive Officers to hedge ownership by engaging in short sales or trading in any options contracts involving our securities.

Option Exercises and Stock Vested

No options have been exercised by our Named Executive Officers during the fiscal year ended December 31, 2007.

Pension Benefits

Under the Mandatory Provident Fund (MPF) Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees election, their employers must contribute 5% of the employees income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees accounts. The contributions must be invested and accumulated until the employees retirement.

Nonqualified Deferred Compensation

We do not have any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Employment Agreements

We have not entered into any employment agreements with any of our Named Executive Officers.

Executive Officer Compensation

The following table sets forth the annual and long-term compensation of our Named Executive Officers for services in all capacities to the Company for the last two fiscal years ended December 31, 2007 and December 31, 2006.

Summary Compensation Table

| Name and Principal Position | Year (1) | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation | All Other Compensation (\$) | Total (\$) |
|---|-------------|----------------|---------------|-------------------------|--------------------------|---|--|-----------------------------------|---------------|
| | | | | | | | Earnings | | |
| Chung-Lun Yang, Chief Executive Officer and | 2007 | \$812,821 | | | | | | \$ 17,521 | \$830,342 |
| | 2006 | 200,000 | | | | | | 68,280 | 268,280 |

Chairman of
the Board

(1) Mr. Yang's other annual compensation includes rent and housing allowance in the amount of \$17,521 for the year ended December 31, 2007 and \$68,280 for the year ended December 31, 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

None.

Compensation of Directors

Except with respect to Ben Wong who was paid fees of \$72,435 during the year ended December 31, 2007, none of our directors who served during the year ended December 31, 2007 received compensation for serving as such, other than reimbursement for out of pocket expenses incurred in attending director meetings.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of December 31, 2007: (i) by each person who is known by us to own beneficially more than 5% of the Common Stock, (ii) by each of our directors, (iii) by each of our executive officers and (iv) by all our directors and executive officers as a group. On such date, we had we had 28,329,936 shares of Common Stock outstanding.

As used in the table below, the term beneficial ownership with respect to a security consists of sole or shared voting power, including the power to vote or direct the vote, and/or sole or shared investment power, including the power to dispose or direct the disposition, with respect to the security through any contract, arrangement, understanding, relationship, or otherwise, including a right to acquire such power(s) during the 60 days immediately following December 31, 2007. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated

| Name and Address of Beneficial Owner | Shares of Common Stock Beneficially Owned | Percentage of Class Beneficially Owned(1) | |
|---|---|---|---|
| Chung-Lun Yang (2) (3) No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong | 22,380,000 | 78.9 | % |
| Ben Wong (3) 19B, Tower 8, Bellagio, 33 Castle Peak Road, Sham Tseng, New Territories, Hong Kong | 0 | 0.0 | % |
| Kenneth Lap-Yin Chan (2) Flat B, 8/F., Block 19, South Horizons, Aplei Chau, Hong Kong | 0 | 0.0 | % |
| All Directors and Officers as a Group | 22,380,000 | 78.9 | % |

(1) Applicable percentage of ownership is based on 28,329,936 shares of Common Stock outstanding as of December 31, 2007, together with securities exercisable or convertible into shares of Common Stock within 60 days of December 31, 2007, for each stockholder. Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities exercisable or convertible into shares of Common Stock that are currently exercisable or exercisable within 60 days of December 31, 2007, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The Common Stock is the only outstanding class of equity securities of the Company.

(2) Executive Officer

(3) Director

Except as otherwise set forth, information on the stock ownership of these persons was provided to us by such persons.

Item 13. Certain Relationships and Related Transactions, and Director Independence

All related person transactions are reviewed and, as appropriate, may be approved or ratified by the Board of Directors. Related person transactions are approved by the Board of Directors only if, based on all of the facts and circumstances, they are in, or not inconsistent with, our best interests and our stockholders, as the Board of Directors determines in good faith. The Board of Directors takes into account, among other factors it deems appropriate, whether the transaction is on terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction. The Board of Directors may also impose such conditions as it deems necessary and appropriate on us or the related person in connection with the transaction.

In the case of a transaction presented to the Board of Directors for ratification, the Board of Directors may ratify the transaction or determine whether rescission of the transaction is appropriate.

CERTAIN RELATED PERSON TRANSACTIONS

Transactions with Mr. Yang

As of December 31, 2007 and 2006, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling \$75,998 and \$0. These advances bear no interest and are payable on demand.

For the years ended December 31, 2007 and 2006, we recorded compensation to Mr. Yang of \$812,821 and \$200,000 respectively, and paid \$812,821 and \$200,000 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2007 and 2006, we paid rent of \$17,521 and \$68,280 respectively for Mr. Yang's personal residence as fringe benefits to him. All such payments have been recorded as compensation expense in the accompanying financial statements.

Transactions with Classic Electronic Ltd.

Mr. Ben Wong, one of our directors, is a 99.9% shareholder of Classic Electronic Ltd. (Classic). The remaining 0.1% of Classic is owned by a non-related party. As of December 31, 2007 and 2006, we had net outstanding accounts receivable from Classic totaling \$1,717,859 and \$6,709,495, respectively. This account receivable has been outstanding for more than 12 months.

Classic has historically met its payment obligations to the Company and the Company has no reason to believe that Classic's receivables are not collectible. Pursuant to a written personal guarantee agreement, Mr. Yang has personally guaranteed up to \$10.0 million of the outstanding accounts receivable from Classic. The Company has received verbal assurances from Mr. Yang of his intent and ability to perform under the above-referenced guarantee and based on information provided by Mr. Yang, his net worth is approximately \$17 million. In addition, as discussed in Note 14, the Company has entered into a payment plan with Classic, which payment plan contains a due on demand clause

We leased one of our facilities and Mr. Yang's personal residence from Classic. Lease agreements for those two properties expired and were acquired by Atlantic on July 21, 2006. Monthly lease payments for these 2 leases totaled \$6,684. We incurred and paid rent expense of \$0 and \$44,418 to Classic for the years ended December 31, 2007 and 2006 respectively.

On February 21, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with Standard Chartered Bank (Hong Kong) Limited (SCB). The maximum amount of facilities that could be utilized by Atlantic was \$1.154 millions (HKD9 millions) and the facility lines was fully covered by collaterals provided by Classic and companies other than Atlantic. Subsequently, the cross guarantees were released on

December 7, 2006.

On July 6, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with The Bank of East Asia Limited (BEA). The cross guarantee was temporarily created due to selling of properties by Classic to Atlantic. During the period of execution of the assignment of legal title, BEA requested a cross guarantee for both companies. All facilities and outstanding loan balances were booked under and utilized by Atlantic which will not absorb any losses from Classic. Subsequently, the cross guarantees were released on December 8, 2006.

Transactions with Solution Semiconductor (China) Ltd.

Mr. Ben Wong, one of our directors, is a 99% shareholder of Solution Semiconductor (China) Ltd. (Solution). The remaining 1% of Solution is owned by a non-related party. On April 01, 2007, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$12,385 and \$3,436 to Solution during the year ended December 31, 2007 and 2006.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from Citic Ka Wah Bank Limited (Citic) and SCB respectively.

Transactions with Systematic Information Ltd.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (Systematic Information) with a total of 100% interest. On August 31, 2006, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2008. Monthly lease payment for this lease totaled \$641. We incurred and paid an aggregate rent expense of \$7,692 and \$2,564 to Systematic Information during the year ended December 31, 2007 and 2006.

During the years ended December 31, 2007 and 2006, we received service charges \$11,538 and \$6,410 respectively, from Systematic Information. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic Information.

On April 1, 2005, we entered into a lease agreement with Systematic Information pursuant to which we lease one residential property for Mr. Yang's personal use for a monthly lease payment of \$3,205. Upon expiration of the lease on June 15, 2007, ACL acquired this residential property from Systematic Information. We incurred and paid an aggregate rent expense of \$17,521 and \$38,462 to Systematic Information during the year ended December 31, 2007 and 2006.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from SCB.

Transactions with Aristo Technologies Ltd.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and the sole beneficial owner of Aristo Technologies Ltd. (Aristo). During the years ended December 31, 2007 and 2006, we sold \$17,165,728 and \$11,986,047, respectively, to Aristo. Outstanding accounts receivable totaled \$6,237,905 and \$662,972 as of December 31, 2007 and 2006, respectively. We have not experienced any bad debt from this customer in the past.

During the years ended December 31, 2007 and 2006, we purchased inventories of \$3,633,424 and \$1,584,985, respectively, from Aristo. As of December 31, 2007 and 2006, there was no outstanding accounts payable to Aristo.

Aristo has historically met its payment obligations to the Company and the Company has no reason to believe that Aristo's receivables are not collectible. In addition, as discussed in Note 14, the Company entered into a payment plan with Aristo according to which the outstanding balance of accounts receivable will be paid over the course of 2010 which payment plan contains a due on demand clause.

Transactions with Global Mega Development Ltd.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Global Mega Development Ltd. (Global). During the years ended December 31, 2007 and 2006, we received management fee of \$5,769 and \$7,692 respectively, from Global. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Global. The management fees were charged for back office support for Global.

Transactions with Intelligent Network Technology Ltd.

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is a director and 80% shareholder of Intelligent Network Technology Ltd. (Intelligent). The remaining 20% of Intelligent is owned by a non-related party. During the years ended December 31, 2007 and 2006, we received management fees of \$0 and

\$7,692 respectively, from Intelligent. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Intelligent. The management fees were charged for back office support for Intelligent.

Transactions with Systematic Semiconductor Ltd.

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2007 and 2006, we received a management fee of \$16,026 and \$15,384 respectively, from Systematic. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic. The management fees were charged for back office support for Systematic.

Transactions with First World Logistics Ltd.

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of First World Logistics Ltd. (First). During the years ended December 31, 2007 and 2006, we sold \$0 and \$7,720,975 respectively to First.

During the years ended December 31, 2007 and 2006, we purchased inventories for \$0 and \$825,900 respectively from First. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from First.

Transactions with City Royal Limited

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a 50% shareholder of City Royal Limited (City). The remaining 50% of City is owned by the wife of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (DBS Bank).

Item 14. Principal Accounting Fees and Services

The following table presents fees, including reimbursements for expenses, for professional audit services rendered by JTC Fair Song CPA Firm and Jeffrey Tsang & Co for the audits of our annual financial statements and interim reviews of our quarterly financial statements for the years ended December 31, 2007 and December 31, 2006, respectively, and fees billed for other services rendered by JTC Fair Song CPA Firm and Jeffrey Tsang & Co during those periods.

| | Fiscal 2007 | Fiscal 2006 |
|------------------------|------------------------|------------------------|
| Audit Fees (1) | \$35,000 | \$35,000 |
| Audit Related Fees (2) | \$ | \$ |
| Tax Fees (3) | \$ | \$ |
| All Other Fees (4) | \$ | \$ |
| Total | \$ | \$ |

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by and Jeffrey Tsang & Co. and JTC Fair Song CPA Firm in connection with statutory and regulatory filings or engagements.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under Audit Fees. There were no such fees in fiscal year 2007 or 2006.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning. There were no such fees in fiscal year 2007 or 2006.
- (4) All Other Fees consist of fees for products and services other than the services reported above. There were no such fees in fiscal year 2007 or 2006.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) Documents filed as part of this Report
 - (1) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this report
 - (2) The financial statements listed in the Index are filed a part of this report.
Schedule II Valuation and Qualifying Accounts and Reserves. Schedule II on page S-1 is filed as part of this report.
 - (3) List of Exhibits
See Index to Exhibits in paragraph (b) below.

The Exhibits are filed with or incorporated by reference in this report.

(b) Exhibits required by Item 601 of Regulation S-K.

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Certificate of incorporation of the Company, together with all amendments thereto, as filed with the Secretary of State of the State of Delaware, incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the Securities and Exchange Commission on December 19, 2003. |
| 3.2 | By-Laws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement. |
| 4.1(a) | Form of specimen certificate for common stock of the Company. |
| 10.1 | Share Exchange and Reorganization Agreement, dated as of September 8, 2003, among Print Data Corp., Atlantic Components Limited and Mr. Chung-Lun Yang, incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.2 | Conveyance Agreement, dated as of September 30, 2003, between Print Data Corp. and New Print Data Corp., incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.3 | Securities Purchase Agreement, dated October 1, 2003, among Print Data Corp, Jeffery Green, Phyllis Green and Joel Green, incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.4 | Sales Restriction Agreement, dated September 30, 2003, between Print Data Corp. and Phyllis Green, incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.5 | Sales Restriction Agreement, dated September 30, 2003, between Print Data Corp. and Jeffery Green, incorporated by reference to Exhibit 10.5 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.6 | Distribution Agreement, dated May 1, 1993, by and between Samsung Electronics Co., Ltd. and Atlantic Components Limited, incorporated by reference to Exhibit 10.6 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.7 | Renewal of Distributorship Agreement, dated March 1, 2002, by and between Samsung Electronics Co., Ltd. and Atlantic Components Limited, incorporated by reference to Exhibit 10.7 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003. |
| 10.8 | Form of Note Subscription, dated as of December 31, 2003, by and between the Company and Professional Traders Fund LLC, a New York limited liability company (PTF), incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004. |
| 10.9 | Form of 12% Senior Subordinated Convertible Note due December 31, 2004 in the aggregate principal amount of \$250,000 issued by the Company to PTF, incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004. |

- 10.10 Form of Limited Guaranty and Security Agreement, dated as of December 31, 2003, by and among, the Company, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
- 10.11 Form of Stock Purchase and Escrow Agreement, dated as of December 31, 2003, by and among, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., and the law firm of Sullivan & Worcester LLP, as escrow agent, incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
- 10.12 Form of Letter Agreement, dated as of December 31, 2003, by and between the Company and PTF, incorporated by reference to Exhibit 10.5 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
- 10.13 Letter of Intent, dated December 29, 2003, between the Company and Classic Electronics, Ltd., incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on March 25, 2004.
- 10.14 Note Subscription, dated as of December 31, 2003, by and between the Company and Professional Traders Fund LLC, a New York limited liability company (PTF), incorporated by reference to Exhibit 10.6 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
- 10.15 12% Senior Subordinated Convertible Note due December 31, 2004 in the aggregate principal amount of \$250,000 issued by the Company to PTF, incorporated by reference to Exhibit 10.7 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
- 10.16 Limited Guaranty and Security Agreement, dated as of December 31, 2003, by and among, the Company, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., incorporated by reference to Exhibit 10.8 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
- 10.17 Stock Purchase and Escrow Agreement, dated as of December 31, 2003, by and among, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., and the law firm of Sullivan & Worcester LLP, as escrow agent, incorporated by reference to Exhibit 10.9 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
- 10.18 Letter Agreement, dated as of December 31, 2003, by and between the Company and PTF, incorporated by reference to Exhibit 10.10 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
- 10.19 Stock Purchase Agreement, dated as of December 30, 2005, by and among the Company, Classic Electronics, Ltd. (Classic) and the shareholders of Classic, incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on January 6, 2006.

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- 10.20 2006 Incentive Equity Stock Plan, incorporated by reference to Exhibit 4.1 to the Form S-8 filed with the Securities and Exchange Commission on April 27, 2006.
- 14 Code of Business Conduct and Ethics of the Company incorporated by reference to Exhibit 14 to the Form 10-K for the period ended December 31, 2003.
- 16.1 Letter dated March 19, 2008 from Jeffrey Tsang & Co., incorporated by reference to Exhibit 16.1 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2008.
- 21 Subsidiaries of the Company
 - Atlantic Components Limited, a Hong Kong corporation
 - Alpha Perform Technologies Limited, a British Virgin Islands corporation
- 31.1 Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

- (c) Financial statements required by Regulation S-X which are excluded from the annual report to shareholders by Rule 14a-3(b).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACL SEMICONDUCTORS INC.

By: /s/ Chung-Lun Yang
Chung-Lun Yang
Chief Executive Officer

Dated: January 6, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|--|--|-----------------|
| /s/ Chung-Lun Yang Chung-Lun Yang | Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) | January 6, 2010 |
| /s/ Kenneth Lap-Yin Chan Kenneth Lap-Yin Chan | Chief Financial Officer (Principal Financial and Accounting Officer) | January 6, 2010 |
| /s/ Ben Wong Ben Wong | Director | January 6, 2010 |

ACL Semiconductors Inc. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2007 and December 31, 2006 and

the Years Ended December 31, 2007 and 2006

With Report of Independent Registered Public Accounting Firm

Index to Consolidated Financial Statements

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JEFFREY TSANG & CO.

CERTIFIED PUBLIC ACCOUNTANTS

Units 1205-6, 12/F, Cheuk Nang Centre, 9 Hillwood Road, Tsimshatsui, Kowloon, Hong Kong.

Tel: (852) 2781 1606

Fax: (852) 2783 0752

E-mail: info@hkjtc.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

ACL Semiconductors Inc.

Kowloon, Hong Kong

We have audited the accompanying consolidated balance sheet of ACL Semiconductors Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity (deficit), cash flows and financial statement schedule of the year ended December 31, 2006. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 10 to the consolidated financial statements, the Company has had numerous significant transactions with businesses and affiliates controlled by, and with persons who are related to, the officers and directors of the Company.

As discussed in Note 7 to the consolidated financial statements, the Company is dependent on one single vendor to supply its inventories and this single vendor provided the majority of the Company's inventory purchases during the year ended December 31, 2006. The Company's non-exclusive distributorship agreement with this supplier expired on March 1, 2007. The Company is still in negotiation with the supplier regarding the renewal terms of the agreement, and such an agreement has not yet been renewed. Termination of such distributorship agreement by the supplier would have a material adverse effect on the operations of the Company.

As discussed in Note 15, the accompanying consolidated financial statements as of December 31, 2006 have been restated.

/s/ JEFFREY TSANG & CO.

JEFFREY TSANG & CO.

CERTIFIED PUBLIC ACCOUNTANTS

Hong Kong

April 17, 2007, except for Note 15, which is as of April, 15 2008

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Report of Independent Registered Public Accounting Firm

Board of Directors
ACL Semiconductors Inc.
Kowloon, Hong Kong

We have audited the accompanying consolidated balance sheet of ACL Semiconductors Inc. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity, cash flows and financial statement schedule of the year ended December 31, 2007, as listed in the index appearing in this Annual Report on Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We did not audit the financial statements of the Company for the years ended December 31, 2006 and December 31, 2005, which are showed as comparative figures in the accompanying financial statements. The financial statements of the Company for the year ended December 31, 2006 were audited by the predecessor principal auditors, Jeffery Tsang & Co. Certified Public Accountants, whose report was dated April 17, 2007.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, the Company has had numerous significant transactions with businesses and affiliates controlled by, and with persons who are related to, the officers and directors of the Company.

In addition, as discussed in Note 8 to the consolidated financial statements, the Company is dependent on one single vendor to supply its inventories and this single vendor provided the majority of the Company's inventory purchases during the year ended December 31, 2007.

/s/ JTC Fairsong CPA Firm

JTC Fairsong CPA Firm
CERTIFIED PUBLIC ACCOUNTANTS
Shenzhen, China
April 15, 2008

ACL SEMICONDUCTORS AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****ASSETS**

| | December 31, | |
|--|----------------------|---------------------------------|
| | 2007 | 2006 (As Restated) (1) |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,597,674 | \$ 1,447,486 |
| Restricted cash | 4,203,057 | 2,708,577 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 for 2008 and 2007 | 7,594,784 | 2,008,474 |
| Accounts receivable, related parties | 7,955,764 | 7,372,467 |
| Inventories, net | 3,483,994 | 3,253,255 |
| Restricted marketable securities | 769,231 | |
| Marketable securities | 404,780 | |
| Income tax refundable | 49,375 | |
| Other current assets | 83,061 | 40,937 |
| Total current assets | 26,141,720 | 16,831,196 |
| Property, equipment and improvements , net of accumulated depreciation and amortization | 6,933,998 | 3,909,121 |
| Other deposits | 387,245 | 381,038 |
| Total Assets | \$ 33,462,963 | \$ 21,121,355 |

The accompanying notes form an integral part of these consolidated financial statements

ACL SEMICONDUCTORS AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****LIABILITIES AND STOCKHOLDERS EQUITY**

| | December 31, | |
|---|---------------|---------------------------------|
| | 2007 | 2006 (As Restated) (1) |
| Current liabilities: | | |
| Accounts payable | \$ 12,592,685 | \$ 5,009,723 |
| Accrued expenses | 186,738 | 314,224 |
| Lines of credit and loan facilities | 15,610,488 | 10,838,467 |
| Current portion of long-term debt | 135,237 | 90,569 |
| Current portion of capital lease | 44,991 | 17,170 |
| Income tax payable | | 74,839 |
| Due to shareholders for converted pledged collateral | 112,385 | 112,385 |
| Other current liabilities | 268,573 | 293,617 |
| Total current liabilities | 28,951,097 | 16,750,994 |
| Long-term liabilities | | |
| Long-term debt, less current portion | 2,539,242 | 1,873,812 |
| Capital lease, less current portion | 49,971 | 27,185 |
| Total long-term liabilities | 2,589,213 | 1,900,997 |
| Deferred tax | 15,471 | 8,813 |
| Total liabilities | 31,555,781 | 18,660,804 |
| Commitments and contingencies | | |
| Stockholders equity (deficit): | | |
| Common stock - \$0.001 par value, 50,000,000 shares authorized, 28,329,936 issued and outstanding | 28,330 | 28,330 |
| Additional paid-in capital | 3,593,027 | 3,593,027 |
| Amount due (from) to stockholder/director | (75,998) | 913,463 |
| Accumulated deficit | (1,638,177) | (2,074,269) |
| Total stockholders equity | 1,907,182 | 2,460,551 |
| | \$ 33,462,963 | \$ 21,121,355 |

The accompanying notes form an integral part of these consolidated financial statements

(1) See Note 15, Restatement of Consolidated Financial Statements , of the Notes to Consolidated Financial Statements.

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | December 31, | |
|--|---------------|------------------------------|
| | 2007 | 2006 (As Restated) (1) |
| Net sales: | | |
| Related parties | \$ 17,165,728 | \$ 19,707,023 |
| Other | 143,321,689 | 85,976,817 |
| Less discounts to customers | (82,493) | (41,717) |
| | 160,404,924 | 105,642,123 |
| Cost of sales | 156,533,635 | 101,544,098 |
| Gross profit | 3,871,289 | 4,098,025 |
| Operating expenses: | | |
| Selling | 69,260 | 791,367 |
| General and administrative | 2,942,542 | 2,272,057 |
| Income from operations | 859,487 | 1,034,601 |
| Other income (expenses): | | |
| Rental income | 37,179 | |
| Interest expense | (1,009,006) | (688,693) |
| Provision for taxation written back | | 150,000 |
| Unrealized gain on marketable securities | 404,780 | |
| Management and service income | 33,333 | 35,256 |
| Net income on cashflow hedge | 64,590 | |
| Interest income | 169,055 | 79,838 |
| Director life insurance policy refund | 29,617 | |
| Exchange differences | 34,672 | 2,114 |
| Miscellaneous: | 218 | 703 |
| Income before income taxes provision | 623,925 | 613,819 |
| Income taxes provision | 187,833 | 163,415 |
| Net income | \$ 436,092 | \$ 450,404 |
| Earnings per share - basic and diluted | \$ 0.02 | \$ 0.02 |
| Weighted average number of shares - basic and diluted | 28,329,936 | 28,329,936 |

The accompanying notes form an integral part of these consolidated financial statements

(1) See Note 15, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | Common stock | | Additional paid-in capital | Due (from)/to stockholder/ Director | Accumulated deficit | Total stockholders Equity (deficit) |
|--|--------------|----------|----------------------------------|--|------------------------|--|
| Balance at December 31, 2005 | \$7,829,936 | \$27,830 | 3,360,405 | (102,936) | (2,524,673) | 760,626 |
| Issuance of common stock issued to consultant (restated) (1) | 500,000 | 500 | 104,500 | | | 105,000 |
| Issuance of common stock for option issued to employees | | | 128,122 | | | 128,122 |
| Net increase in due to | | | | 1,016,399 | | 1,016,399 |
| Net income (restated) (1) | | | | | 450,404 | 450,404 |
| Balance at December 31, 2006 (restated) (1) | 28,329,936 | 28,330 | 3,593,027 | 913,463 | (2,074,269) | 2,460,551 |
| Net increase in due from | | | | (989,461) | | (989,461) |
| Net income | | | | | 436,092 | 436,092 |
| Balance at December 31, 2007 | 28,329,936 | \$28,330 | \$3,593,027 | \$ (75,998) | \$ (1,638,177) | \$ 1,907,182 |

The accompanying notes form an integral part of these consolidated financial statements

(1) See Note 15, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | Years ended December 31, | |
|---|--------------------------|---------------------------------|
| | 2007 | 2006 (As Restated) (1) |
| Cash flows provided by (used for) operating activities: | | |
| Net income | \$436,092 | \$450,404 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 230,614 | 78,074 |
| Change in inventory reserve | 323,077 | 100,000 |
| Gain on disposal of equipment | (218) | |
| Gain on disposal of marketable securities | (404,780) | |
| Fair value of options issued to employees | | 128,122 |
| Issuance of common stocks to consultant as professional fee under share option scheme | | 105,000 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets | | |
| Accounts receivable other | (5,586,310) | (1,492,917) |
| Accounts receivable related parties | (583,297) | (5,196,730) |
| Inventories | (553,816) | (2,265,503) |
| Refundable deposits | | 1,000,000 |
| Income tax refundable | (49,375) | |
| Other current assets | (42,124) | 222,363 |
| Other assets | (6,207) | 6 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 7,582,962 | 513,904 |
| Accrued expenses | (127,486) | 41,442 |
| Payable related to debt settlement | | (76,088) |
| Income tax payable | (74,839) | (142,614) |
| Other current liabilities | (25,044) | 238,598 |
| Deferred tax | 6,658 | 8,813 |
| Total adjustments | 689,815 | (6,737,530) |
| Net cash provided by (used for) operating activities | 1,125,907 | (6,287,126) |
| Cash flows used for investing activities: | | |
| Advanced (to) from stockholders | (989,461) | 1,016,399 |
| Increase in restricted cash | (1,494,480) | (1,939,346) |
| Increase in restricted marketable securities | (769,231) | |
| Cash Proceeds from sales of marketable securities and restricted marketable securities | | |
| Cash Proceeds from sales of equipment | 385 | |
| Purchases of property, equipment and improvements | (3,159,760) | (3,833,649) |
| Net cash used for investing activities | (6,412,547) | (4,756,596) |
| Cash flows provided by financing activities: | | |
| Net borrowings on lines of credit and notes payable | 4,772,021 | 7,996,182 |

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| | | |
|---|-------------|-------------|
| Borrowing under long-term debt | 801,723 | 2,000,000 |
| Principal payments under long-term debt | (91,625) | (35,619) |
| Principal payments under capital lease obligation | (45,291) | (7,154) |
| Net cash provided by financing activities | 5,436,828 | 9,953,409 |
| Net increase (decrease) in cash and cash equivalents | 150,188 | (1,090,313) |
| Cash and cash equivalents, beginning of year | 1,447,486 | 2,537,799 |
| Cash and cash equivalents, end of year | \$1,597,674 | \$1,447,486 |

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| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2007 | 2006 |
| | | (As Restated) (1) |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 1,009,006 | \$ 688,693 |
| Income tax paid | \$ 305,389 | \$ 147,217 |
| Supplement schedule of non-cash investing and financing activities: | | |
| Capital lease obligations incurred when capital leases were entered for new automobiles | \$ 91,752 | \$ 51,509 |
| The accompanying notes form an integral part of these consolidated financial statements | | |

(1) See Note 15, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

On September 8, 2003, ACL Semiconductors Inc. (formerly Print Data Corp.) (ACL) entered into a Share Exchange and Reorganization Agreement with Atlantic Components Ltd. (Atlantic), a Hong Kong based company, and Mr. Chung-Lun Yang (Mr. Yang), the then sole beneficial stockholder of Atlantic. Under the terms of the agreement, ACL issued 22,380,000 of its shares to Mr. Chung-Lun Yang and 2,620,000 of its shares to certain financial advisors in exchange for 100% of the issued and outstanding shares of Atlantic 's capital stock. The Company recorded an expense of \$2,753,620 related to the issuance of 2,620,000 shares of its common stock to these advisors, which was computed based on the quoted market price of \$1.05 on September 30, 2003, the effective date of the merger and was classified as merger cost in the accompanying consolidated statements of operations for the year ended December 31, 2003.

The share exchange agreement closed and became effective on September 30, 2003. Upon the completion of this transaction, Atlantic became the wholly owned subsidiary of ACL, and Mr. Yang became the owner of approximately 80% of ACL 's issued and outstanding shares of common stock. In addition, ACL 's directors and officers resigned and were replaced by directors and officers of Atlantic. For accounting purposes, the acquisition was accounted for as a reverse-acquisition, whereby Atlantic was deemed to have acquired ACL. Because the acquisition was accounted for as a purchase of ACL, the historical financial statements of Atlantic became the historical financial statements of ACL after this transaction.

In connection with this transaction, ACL entered into a Conveyance Agreement on September 30, 2003 with New Print Data Corp. (NewCo). Under the terms of this agreement, effective September 30, 2003, ACL conveyed its historic operations of providing supplies used in a computer or office environment to NewCo, by assigning all of the assets and liabilities related to such operations to NewCo which accepted the assignment and assumed all such liabilities in exchange for 1,000,000 shares of common stock of NewCo.

On October 1, 2003, Print Data Corp. entered into a Securities Purchase Agreement with the holders of Print Data Corp. 's Series A Preferred Stock. Under the terms of this agreement, Print Data Corp. sold its 1,000,000 shares of NewCo common stock in exchange for the cancellation of the issued and outstanding 500,400 shares of ACL 's Series A Preferred Stock (representing 100% of Print Data Corp. 's issued and outstanding preferred stock previously held by three preferred stockholders).

On December 16, 2003, Print Data Corp. filed a Certificate of Amendment with the Secretary of State of the State of Delaware changing its name from Print Data Corp. to ACL Semiconductors Inc.

Business Activity

ACL Semiconductors Inc. (Company or ACL) was incorporated in the State of Delaware on September 17, 2002. Through a reverse-acquisition of Atlantic Components Ltd., a Hong Kong based company, effective September 30, 2003, the Company 's principal activities are distribution of electronic components under the Samsung brandname which comprise DRAM and graphic RAM, FLASH, SRAM and MASK ROM for the Hong Kong and Southern China markets. Atlantic Components Ltd., its wholly owned subsidiary, was incorporated in Hong Kong on May 30, 1991

with limited liability. On October 2, 2003, the Company set up a wholly-owned subsidiary, Alpha Perform Technology Limited (Alpha), a British Virgin Islands company, to provide services on behalf of the Company in jurisdictions outside of Hong Kong. Effective January 1, 2004, the Company ceased the operations of Alpha and all the related activities are consolidated with those of Atlantic.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**Note 1. Organization and Summary of Significant Accounting Policies, Continued
Currency Reporting**

Amounts reported in the accompanying consolidated financial statements and disclosures are stated in U.S. Dollars, unless stated otherwise. The functional currency of the Company, which accounted for most of the Company's operations, is reported in Hong Kong dollars (HKD). Foreign currency transactions (outside Hong Kong) during the years ended December 31, 2007 and 2006 are translated into HKD according to the prevailing exchange rate at the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet dates are translated into HKD at year-end exchange rates.

For the purpose of preparing these consolidated financial statements, the financial statements of Atlantic reported in HKD have been translated into United States dollars (USD or US\$) at US\$1.00=HKD7.8, a fixed exchange rate maintained between the two countries.

Consolidation Policy

The consolidated financial statements include the financial statements of ACL Semiconductors Inc. and its wholly owned subsidiaries, Atlantic Components Ltd., and Alpha Perform Technology Limited. All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

Revenue Recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue recognition, allowance for doubtful accounts, long lived assets impairment, inventories, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Segment Reporting

The Company's sales are generated from Hong Kong and the rest of China and substantially all of its assets are located in Hong Kong.

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change in the near future. The Company did not provide an allowance for doubtful accounts as of December 31, 2007 and 2006.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies, Continued
Inventories

Inventories are stated at the lower of cost or market and are comprised of purchased computer technology resale products. Cost is determined using the first-in, first-out method. The reserve for obsolescence was decreased by \$323,077 for 2007 and increased by \$100,000 for 2006. Inventory obsolescence reserves totaled \$564,103 and \$241,025 as of December 31, 2007 and 2006, respectively.

Lease assets

Leases that substantially transfer all the benefits and risks of ownership of assets to the company are accounted for as capital leases. At the inception of a capital lease, the asset is recorded together with its long term obligation (excluding interest element) to reflect the purchase and the financing.

Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases. Payments made under operating leases are charged to income statement in equal installments over the accounting periods covered by the lease term. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period which they are incurred.

Property, Equipment and Improvements

Property and equipment are valued at cost. Depreciation and amortization are provided over the estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the economic lives or the lease terms.

The estimated service lives of property, equipment and improvements are as follows:

| | |
|------------------------|------------------------------------|
| Automobile | 3 1/3 years |
| Office equipment | 5 years |
| Leasehold improvements | 5 years |
| Computers | 5 years |
| Land and Building | amortized by estimated useful life |

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 relates to assets that can be amortized and the life can be determinable. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of

impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value of asset less the cost to sell. The Company determined that there was no impairment of long-lived assets as of December 31, 2007 and 2006.

Advertising

The Company expenses advertising costs when incurred. Advertising expense totaled \$7,060 and \$7,617 for the years ended December 31, 2007 and 2006 respectively.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies, Continued
Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, lines of credit, convertible debt, accounts payable, accrued expenses, and long-term debt approximates their estimated fair values due to the short-term maturities of those financial instruments.

Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the years ended December 31, 2007 and 2006, the Company has no items that represent other comprehensive income and, therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

Basic and Diluted Earnings (Loss) Per Share

In accordance with SFAS No. 128, Earnings Per Share, the basic earnings (loss) per common share is computed by dividing net earnings (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed similarly to basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 presentation.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159)*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organization shall report unrealized gains and losses in its statement of activities or similar statement. SFAS 159 applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Company does not anticipate that this new SFAS will have any material impact upon its financial condition or results of operations.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies, Continued

In February 2007, the FASB issued FSP FAS 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*. This FSP updates the illustrations contained in Appendix B of FASB Statement No. 87, *Employers' Accounting for Pensions*, Appendix B of FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and Appendix C of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, to reflect the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This FSP also amends the questions and answers contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*, *A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions*, and incorporates them into Statements 87, 88, and 106 as Appendixes E, C, and F, respectively. This FSP supersedes those FASB Special Reports. Finally, this FSP makes conforming changes to other guidance and technical corrections to Statement 158. This FSP does not provide additional implementation guidance for Statement 158 beyond the conforming changes, nor does it change any of the provisions of Statement 158. The conforming amendments made by this FSP are effective as of the effective dates of Statement 158. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39 to certain modifications to FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts* and whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with paragraph 10 of Interpretation 39. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007, with early application permitted. The Company does not anticipate that the guidance in this new FSP will have any material impact upon its financial condition or results of operations.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* to amend FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in this FSP shall be applied upon the initial adoption of Interpretation 48. The Company does not anticipate that the guidance in this new FSP will have any material impact upon its financial condition or results of operations.

In May 2007, the FASB issued FSP FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* to address the application of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, by an entity that accounts for its investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In November 2007, the SEC released Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). SAB 109 provides interpretive guidance on the SEC's views regarding

written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. This SAB supersedes SAB 105 and expresses the current view of the SEC that, consistent with the guidance in Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets, and Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. This SAB retains that SEC's view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. SAB 109 shall apply to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not anticipate that this new SAB will have any material impact upon its financial condition or results of operations.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies, Continued

In December 2007, the SEC released Staff Accounting Bulletin No. 110, Certain Assumptions Used In Valuation Methods (SAB 110). SAB110 provides interpretive guidance on the SEC's views regarding the use of a simplified method, as discussed in SAB No. 107 (SAB 107), in developing an estimate of expected term of plain vanilla share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment . In particular, SAB 107 will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, SEC believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, SEC stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. SEC understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company does not anticipate that this new SAB will have any material impact upon its financial condition or results of operations.

In December 2007, the FASB revised Statement No. 141 (revised 2007), Business Combinations (SFAS 141(R)). The objective of SFAS 141(R) is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this Statement establishes principles and requirements for how the acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company does not anticipate that this revised SFAS will have any material impact upon its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 . The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require:

- The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity.
- The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income.
- Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if

the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions.

When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment.

Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 1. Organization and Summary of Significant Accounting Policies, Continued

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). The Company does not anticipate that this new SFAS will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. This FASB Staff Position (FSP) defers the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, for certain nonpublic enterprises as defined in paragraph 289, as amended, of FASB Statement No. 109, *Accounting for Income Taxes*, including nonpublic not-for-profit organizations. This FSP shall be effective upon issuance. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. This FSP applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. This FSP shall be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*. This FSP amends SFAS No. 157, *Fair Value Measurements*, to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, *Business Combinations*, or No. 141 (revised 2007), *Business Combinations*, regardless of whether those assets and liabilities are related to leases. This FSP shall be effective upon the initial adoption of Statement 157. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. This FASB Staff Position (FSP) delays the effective date of FASB Statement No. 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP shall be effective upon issuance. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

Note 2. Property, Equipment and Improvements:

A summary is as follows:

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| | 2007 | 2006 |
|---|-------------|-------------|
| Land and buildings | \$6,794,629 | \$3,797,760 |
| Office equipment | 147,530 | 132,722 |
| Leasehold improvements | 143,553 | 46,015 |
| Furniture and fixtures | 13,273 | 10,690 |
| Automobiles | 226,056 | 83,325 |
| | 7,325,041 | 4,070,512 |
| Less: accumulated depreciation and amortization | 391,043 | 161,391 |
| | \$6,933,998 | \$3,909,121 |

Depreciation and amortization expense for property, equipment, and improvements amounted to \$230,614 and \$78,074 for the years ended December 31, 2007 and 2006 respectively.

Note 3. Revolving Lines of Credit and Loan Facilities

The line of credit granted by Dah Sing Bank, Limited to the Company matured on September 30, 2007. The outstanding balances with Dah Sing Bank, Limited were \$0 at December 31, 2007 and \$1,641,000 at December 31, 2006. For borrowings in Hong Kong dollars (HKD), the line of credit bore interest at the greater of (1) Hong Kong prime rate or (2) 1% over the Hong Kong Inter-bank Offer Rate (HIBOR) as of December 31, 2006. Weighted average interest rate approximated 7.9% for 2007 and 8.1% for 2006. For borrowings in foreign currency, the line of credit carries interest at the Base Rate.

The Company has available to it a \$5,128,205 revolving line of credit with DBS Bank with an outstanding balance of \$5,635,176 at December 31, 2007 and \$4,228,396 at December 31, 2006. The line of credit bears interest at the bank's standard bills rate less 1.25% for HKD borrowings and at the bank's standard bills rate less 0.75% for other currency borrowings as of December 31, 2007. Weighted average interest rate approximated 6.7% for 2007 and 6.9% for 2006.

The Company has available to it a \$5,769,231 factoring facility with recourse/without recourse with DBS Bank without any outstanding balance at December 31, 2007. The factoring facility bears discounting charge at the bank's standard bills rate less 1.25% for advance in HKD or the bank's standard bills rate less 0.75% for advance in other currency as of December 31, 2007. Weighted average interest rate approximated 6.7% for 2007 and 6.9% for 2006.

The Company has available to it a \$384,615 letter of guarantee with DBS Bank with an outstanding balance of \$384,615 at December 31, 2006 and the letter of guarantee expired on December 17, 2007. The line of credit bears commission 1.5% per annum which will be refunded on pro-rata basis upon return and cancellation of the letter of guarantee.

The Company has available to it a \$3,076,923 revolving line of credit with SCB with an outstanding balance of \$3,709,379 at December 31, 2007 and \$1,015,825 at December 31, 2006. The line of credit bears interest at a rate of the bank's standard bills rate less 0.5% for HKD facilities and at a rate of the bank's standard bills rate plus 1% for foreign currency facilities as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 7.6% for 2006.

The Company has available to it \$1,025,641 factory facilities with SCB without any outstanding balance at December 31, 2007. The factoring facility bears discounting charges at the bank's standard bills rate less 0.75% rate for advanced in HKD or the bank's standard bills rates less 0.75% for advance in other currency as of December 31, 2007. Weighted average interest rate approximated 7.2% for 2007.

The Company has available to it a \$2,307,692 revolving line of credit with BEA with an outstanding balance of \$2,303,868 at December 31, 2007 and \$2,307,150 at December 31, 2006. The line of credit bears interest at the higher of Hong Kong prime rate or HIBOR for HKD facilities and at other currencies LIBOR plus 1.75% for other currencies facilities as of December 31, 2007. Weighted average interest rate approximated 7.9% for 2007 and 8.1% for 2006.

The Company has available to it a \$275,749 tax loan with BEA with an outstanding balance of \$252,770 at December 31, 2007. The line of credit bears interest at the higher of Hong Kong prime rate less 2% or HIBOR and will be repayable by 11 monthly installments as of December 31, 2007. Weighted average interest rate approximated 7.9% for 2007.

The Company has available to it a \$2,307,692 revolving line of credit with Citic with an outstanding balance of \$2,297,061 at December 31, 2007 and \$1,646,096 at December 31, 2006. The line of credit bears interest at the higher of Hong Kong prime rate less 0.5% or 1 month HIBOR plus 3% as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 8.1% for 2006.

The Company has available to it a \$1,923,077 revolving line of credit and factoring facilities with Hang Seng with an outstanding balance of \$1,665,003 at December 31, 2007. The line of credit bears interest at a rate of Hong Kong

prime rate less 0.5% for HKD facilities and at a rate of the bank's board rate less 0.25% for United States Dollar facilities as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 8.1% for 2006.

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The summary of banking facilities at December 31, 2007 is as follows:

| | Granted facilities | Utilized facilities | Not utilized facilities |
|---------------------|--------------------|---------------------|-------------------------|
| Overdraft | \$282,051 | \$ | \$282,051 |
| Installment Loan | 2,817,949 | 2,674,479 | 143,470 |
| Factoring Loan | 6,794,872 | | 6,794,872 |
| Import/Export Loan | 14,743,589 | 15,610,487 | (866,898) |
| Letter of Guarantee | 384,615 | 384,615 | |
| | \$25,023,076 | \$18,669,581 | \$6,353,495 |

With the exception of the \$384,615 letter of guarantee issued by DBS Bank, which will expire on 31 October, 2009, amounts borrowed by the Company under the revolving lines of credit and loan facilities described above are repayable within a period of three (3) months of drawdown

Note 4. Long-Term Debt

A summary is as follows as of December 31:

| | 2007 | 2006 |
|--|-------------|-------------|
| Installment loan having a maturity date in July 2026 and carrying an interest rate of 2.75% below the Hong Kong dollar Prime Rate (5.5% at December 31, 2008) to DBS Bank payable in monthly installments of \$9,663 including interest through December 2008 without any balloon payment requirements | \$1,719,704 | \$1,774,020 |
| Installment loan having a maturity date in July 2011 and carrying an interest rate of 2% below the Hong Kong dollar Prime Rate (5.5% at December 31, 2008) to DBS Bank payable in monthly installments of \$3,782 including interest through December 2008 without any balloon payment requirements | 153,052 | 190,361 |
| Installment loan having a maturity date in July 2023 and carrying an interest rate of 2.5% below the Hong Kong dollar Prime Rate (5.5% at December 31, 2008) to DBS Bank payable in monthly installments of \$5,240 including interest through December 2008 without any balloon payment requirements | 801,723 | |
| | 2,674,479 | 1,964,381 |
| Less: current maturities | 135,237 | 90,569 |
| | \$2,539,242 | \$1,873,812 |
| An analysis of long-term debt as of December 31 is as follows: | | |
| Current portion | \$135,237 | \$90,569 |
| After 1 year, but within 2 years | 290,618 | 196,797 |
| After 2 years, but within 5 years | 247,571 | 199,153 |
| After 5 years | 2,001,053 | 1,477,862 |
| | 2,539,242 | 1,873,812 |
| | \$2,674,479 | \$1,964,381 |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2007 AND 2006 AND****THE YEARS ENDED DECEMBER 31, 2007 AND 2006****Note 4. Long-Term Debt, Continued**

With respect to all of the above referenced debt and credit arrangements in Note 3, the Company pledged its assets as collateral collectively to a bank group in Hong Kong comprised of DBS Bank. (formerly Overseas Trust Bank Limited), SCB, BEA, Citic and Industrial and Commercial Bank of China (Asia) Limited (ICBC) for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. a fixed cash deposit of \$641,025 (HK\$5,000,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic, a wholly owned subsidiary of ACL plus personal guarantee by Mr. Yang as collateral for loans from DBS Bank;
2. a fixed cash deposit of \$1,323,569 (HK\$10,323,842) plus unlimited personal guarantee by Mr. Yang, as collateral for loans from BEA;
3. a cash deposit/securities not less than \$1,282,051 (HK\$10,000,000), a security interest on a workshop located in Hong Kong owned by Systematic Information, a related party, a security interest on a workshop located in Hong Kong owned by Solution, a related party, plus an unlimited personal guarantee by Mr. Yang as collateral for loans from SCB;
4. a cash deposit not less than \$700,000, a security interest on workshop located in Hong Kong owned by Solution, a related party plus a personal guarantee by Mr. Yang as collateral for loans from Citic.
5. marketable securities of \$769,231 (HK\$6,000,000) plus an unlimited personal guarantee by Mr. Yang as collateral for loans from Hang Seng.

Note 5. Capital Lease Obligations

The Company has several non-cancelable capital leases relating to automobiles:

| | 2007 | 2006 |
|---------------------|----------|----------|
| Current portion | \$44,991 | \$44,991 |
| Non-current portion | 49,971 | 49,971 |
| | 94,962 | 94,962 |

At December 31, the value of automobiles under capital leases as follows:

| | 2007 | 2006 |
|--------------------|-----------|----------|
| Cost | \$145,890 | \$49,992 |
| Less: depreciation | 39,344 | 2,500 |
| | 106,545 | 47,492 |

At December 31, the Company had obligations under capital leases repayable as follows:

| | 2007 | 2006 |
|------------------------------|------|------|
| Total minimum lease payments | | |

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| | | |
|--|-----------|----------|
| -Within one year | \$50,381 | \$19,205 |
| - After one year but within 5 years | 56,081 | 30,407 |
| | 106,462 | 49,612 |
| Interest expenses relating to future periods | (11,500) | (5,257) |
| Present value of the minimum lease payments | \$94,962 | \$44,355 |

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2007 AND 2006 AND****THE YEARS ENDED DECEMBER 31, 2007 AND 2006****Note 6. Income Taxes**

Income tax expense amounted to \$187,833 for 2007 and \$163,415 for 2006 (an effective rate of 30% for 2007 and 23% for 2006). A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rate of 34% to income before income taxes is as follows:

| | 2007 | 2006 |
|---|-----------|-----------|
| Computed tax at federal statutory rate | \$212,135 | \$208,698 |
| Tax rate differential on foreign earnings of Atlantic Components Ltd. (Atlantic), a Hong Kong based company | (119,182) | (118,377) |
| Tax under/(over) provision for Atlantic | 61,428 | |
| Net operating loss carry forward | 33,452 | 73,094 |
| Other | \$187,833 | \$163,415 |

The income tax provision consists of the following components:

| | 2007 | 2006 |
|---------|-----------|-----------|
| Federal | \$ | \$ |
| Foreign | 187,833 | 163,415 |
| | \$187,833 | \$163,415 |

The Components of the deferred tax assets and liabilities are as follows:

| | 2007 | 2006 |
|---------------------------|-------------|-----------|
| Net operating losses | \$1,056,992 | \$987,840 |
| Total deferred tax assets | \$1,056,992 | \$987,840 |
| Less: valuation allowance | (1,056,992) | (987,840) |
| | \$ | \$ |

Note 7. Weighted Average Number of Shares

The Company has a 2006 Incentive Equity Stock Plan, under which the Company may grant options to its employees for up to 5 million shares of common stock. In May 2006, the Company granted options to a consultant to acquire 500,000 shares of common stock of the Company as the consulting and advisory service fee and the consultant exercised all of the options during the year ended December 31, 2006. In May 2006, the Company granted options to purchase an aggregate 2,000,000 shares of common stock of the Company to three employees. These options were fully vested upon grant, had an exercise price of \$0.22 per share and expired in December 2006. There was no dilutive effect to the weighted average number of shares for the years ended December 31, 2007 and 2006 since there were no outstanding options at December 31, 2007 and 2006.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 8. Concentrations

The Company has a non-exclusive Distributorship Agreement with Samsung Electronics Hong Kong Co., Ltd. (Samsung), which was initially entered into in May 1993 and has been renewed annually. Under the terms of the agreement, Samsung appointed the Company on a non-exclusive basis as Samsung s distributor to distribute and market its products in the designated territory. The Company has the right to market and sell the products of other manufacturers and render service related to such activities, unless such activities result in the Company s inability to fulfill its obligations under the Agreement. However, the Company shall not purchase to sell any of the same product lines as Samsung produces and deals in from any other Korean manufacturer during the term of this Agreement. The most recent renewal of the Distributorship Agreement expired on March 1, 2009. As of April 1, 2009, Samsung has confirmed the annual renewal of such agreement for one year.

The Company s distribution operations are dependent on the availability of an adequate supply of electronic components under the Samsung brand name which have historically been principally supplied to the Company by the Hong Kong office of Samsung. The Company purchased 49% and 69%, of materials from Samsung for the years ended December 31, 2007 and 2006, respectively. However, there is no written supply contract between the Company and Samsung and, accordingly, there is no assurance that Samsung will continue to supply sufficient electronic components to the Company on terms and prices acceptable to the Company or in volumes sufficient to meet the Company s current and anticipated demand, nor can assurance be given that the Company would be able to secure sufficient products from other third party supplier(s) on acceptable terms.

In addition, the Company s operations and business viability are to a large extent dependent on the provision of management services and financial support by Mr. Yang. See Note 3 for details for Mr. Yang s support of the Company s banking facilities. At December 31, 2007 and 2006, included in accounts payable were \$8,675,069 and \$9,562,199, respectively, to Samsung. Termination of such distributorship by Samsung will significantly impair and adversely affect the continuation of the Company s business.

During the years ended December 31, 2007 and 2006, 4% and 11%, respectively, of the Company s sales were generated from Aristo Technologies Ltd. (Aristo), a related party (see Note 12 for additional discussion of related party transactions). As of December 31, 2007 and 2006, accounts receivable from related parties included \$6,695,409 and \$6,237,905, respectively, due from Aristo, which represented 37% and 40%, respectively, of the total accounts receivable due from related and unrelated parties.

As of December 31, 2007 and 2006, Samsung has withheld a total of \$350,000 of commission due to the Company as deposits. As agreed with Samsung, the commission deposits were fully refunded to the Company on January 22, 2009.

Note 9. Retirement Plan:

Under the Mandatory Provident Fund (MPF) Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees election, their employers must contribute 5% of the employees income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees accounts. The contributions must be invested and accumulated until the

employees retirement. The Company contributed and expensed \$28,530 for 2007 and \$21,475 for 2006.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2007 AND 2006 AND****THE YEARS ENDED DECEMBER 31, 2007 AND 2006****Note 10. Commitments**

The Company leases its facilities. The following is a schedule by years of future minimum rental payments required under operating leases that have non-cancellable lease terms in excess of one year as of December 31, 2007:

| | Related Party | Other | Total |
|--------------------------|------------------|-----------|-----------|
| Year ending December 31, | | | |
| 2008 | \$18,205 | \$76,495 | \$94,700 |
| 2009 | 3,269 | \$48,833 | \$52,102 |
| Thereafter | | \$19,972 | \$19,972 |
| Total | \$21,474 | \$145,300 | \$166,774 |

See Note 12 for related party leases. All leases expire prior to December 31, 2010. Real estate taxes, insurance, and maintenance expenses are obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will likely be more than the amounts shown for 2007. Rent expense for the years ended December 31, 2007 and 2006 totaled \$120,942 and \$116,321 respectively.

Note 11. Derivative Instruments

On February 1, 2009, the Company adopted SFAS 161 as referenced in Note 1. The adoption of SFAS 161 requires additional disclosures about HP's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and the effect of derivative instruments and related hedged items on the financial statements. The adoption had no financial impact on the consolidated condensed financial statements.

Since all of the Company sales are done in USD, the bank is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As part of its risk management strategy, the Company purchases FX forward contracts from the banks to secure the exchange rate for a period of time in order to hedge any FX exposure between HKD and USD throughout the purchase and sale period. The Company applies hedge accounting based upon the criteria established by SFAS 133, whereby the Company designates its derivatives as cash flow hedges. Cash flows from the derivative programs were classified as operating activities in the Consolidated Statement of Cash Flows.

As at December 31, 2007, there is a ratio par forward agreement between the Company and DBS for the Company to buy USD500,000 from DBS at a contract forward rate of 7.735 at specified dates up to March 18, 2008. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract forward rate. The gain on this forward contract during the year ended December 31, 2007 was \$37,244.

As at 31 December 2007, there is a callable ratio par forward agreement between the Company and DBS for the Company to buy USD500,000 from DBS at a contract forward rate of 7.74 at specified dates up to March 20, 2009. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract forward rate. There is no gain or loss on this forward contract during the year ended December 31, 2007.

As at December 31, 2007 there is a participating forward currency option agreement between the Company and SCB for the Company to buy USD200,000 from SCB at a contract rate of 7.725 at specified dates up to July 03, 2008. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract rate at specified dates. The gain on this forward contract during the year ended December 31, 2007 was \$20,897.

As at December 31, 2007, there is a participating knock-out forward currency option agreement between the Company and SCB for the Company to buy USD500,000 from SCB at a contract rate of 7.739 at specified dates up to April 23, 2009. According to the terms of the agreements, the Company will buy USD in triple amount if the spot rate is less than the contract rate at specified dates and the agreement will be terminated whenever the spot rate is higher than a rate of 7.809 during the contract period. The gain on this forward contract during the year ended December 31, 2007 was \$6,449. The agreement was terminated in January 3, 2008.

No foreign currency exchange agreements were matured as of December 31, 2007.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 11. Derivative Instruments, Continued

The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheet as of December 31, 2007 were as follows:

| | As of December 31, 2007 | | | | |
|--|-------------------------------|----------------------|--|---------------------------|-------------------|
| | Gross Notional ⁽¹⁾ | Other Current Assets | Long-term Financing Receivables and Other Assets | Other Accrued Liabilities | Other Liabilities |
| Derivatives designated as hedging instruments under SFAS 133 | | | | | |
| Cash flow hedges: | | | | | |
| Foreign exchange contracts | \$ 1,200,000 | | | | |
| Total derivatives not designated as hedging instruments under SFAS 133 | | | | | |
| Total derivatives | \$ 1,200,000 | | | | |

⁽¹⁾ Represents the face amounts of contracts that were outstanding as of December 31, 2007.

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the year ended December 31, 2007 and 2006 was as follows:

| | Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | | Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | | Gain Recognized in Income on Derivative(1) | |
|----------------------------|---|------------------------------|---|------------------------------|--|------------------------------|
| | Year ended December 31, 2007 | Year ended December 31, 2006 | Year ended December 31, 2007 | Year ended December 31, 2006 | Year ended December 31, 2007 | Year ended December 31, 2006 |
| Cash flow hedges: | | | | | | |
| Foreign exchange contracts | | | Interest and other, net | | Interest and other, net | |
| US\$200,000 (HKD/USD) | | | | | \$ 20,897 | \$ -7 |
| Foreign exchange contracts | | | Interest and other, net | | Interest and other, net | |
| | | | | | 6,449 | -9 |

| | | | | |
|--|-------------------------------|-------------------------------|-----------|-------|
| USD500,000 (HKD/USD) Foreign exchange contracts US\$500,000 (HKD/USD) Total cash flow hedges | Interest and other, net | Interest and other, net | 37,244 | -4 |
| | | | \$ 64,590 | \$ -0 |

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**Note 12. Related Party Transactions
Transactions with Mr. Yang**

As of December 31, 2007 and 2006, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling \$75,998 and \$0. These advances bear no interest and are payable on demand.

For the years ended December 31, 2007 and 2006, we recorded compensation to Mr. Yang of \$812,821 and \$200,000 respectively, and paid \$812,821 and \$200,000 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2007 and 2006, we paid rent of \$17,521 and \$68,280 respectively for Mr. Yang's personal residence as fringe benefits to him. All such payments have been recorded as compensation expense in the accompanying financial statements.

Transactions with Classic Electronic Ltd.

Mr. Ben Wong, one of our directors, is a 99.9% shareholder of Classic Electronic Ltd. ("Classic"). The remaining 0.1% of Classic is owned by a non-related party. As of December 31, 2007 and 2006, we had net outstanding accounts receivable from Classic totaling \$1,717,859 and \$6,709,495, respectively. This account receivable has been outstanding for more than 12 months.

Classic has historically met its payment obligations to the Company and the Company has no reason to believe that Classic's receivables are not collectible. Pursuant to a written personal guarantee agreement, Mr. Yang has personally guaranteed up to \$10.0 million of the outstanding accounts receivable from Classic. The Company has received verbal assurances from Mr. Yang of his intent and ability to perform under the above-referenced guarantee and based on information provided by Mr. Yang, his net worth is approximately \$17 million. In addition, as discussed in Note 14, the Company has entered into a payment plan with Classic, which payment plan contains a "due on demand" clause

We leased one of our facilities and Mr. Yang's personal residence from Classic. Lease agreements for those two properties expired and were acquired by Atlantic on July 21, 2006. Monthly lease payments for these 2 leases totaled \$6,684. We incurred and paid rent expense of \$0 and \$44,418 to Classic for the years ended December 31, 2007 and 2006 respectively.

On February 21, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with Standard Chartered Bank (Hong Kong) Limited ("SCB"). The maximum amount of facilities that could be utilized by Atlantic was \$1.154 millions (HKD9 millions) and the facility lines was fully covered by collaterals provided by Classic and companies other than Atlantic. Subsequently, the cross guarantees were released on December 7, 2006.

On July 6, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with The Bank of East Asia Limited ("BEA"). The cross guarantee was temporarily created due to selling of properties by Classic to Atlantic. During the period of execution of the assignment of legal title, BEA requested a cross guarantee for both companies. All facilities and outstanding loan balances were booked under and utilized by Atlantic which will not absorb any losses from Classic. Subsequently, the cross guarantees were released on

December 8, 2006.

Transactions with Solution Semiconductor (China) Ltd.

Mr. Ben Wong, one of our directors, is a 99% shareholder of Solution Semiconductor (China) Ltd. (Solution). The remaining 1% of Solution is owned by a non-related party. On April 01, 2007, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$12,385 and \$3,436 to Solution during the year ended December 31, 2007 and 2006.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from Citic Ka Wah Bank Limited (Citic) and SCB respectively.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**Note 12. Related Party Transactions, Continued
Transactions with Systematic Information Ltd.**

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (Systematic Information) with a total of 100% interest. On August 31, 2006, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2008. Monthly lease payment for this lease totaled \$641. Upon expiration of the lease on August 31, 2008, ACL acquired this residential property from Systematic Information. We incurred and paid an aggregate rent expense of \$7,692 and \$2,564 to Systematic Information during the year ended December 31, 2007 and 2006.

During the years ended December 31, 2007 and 2006, we received service charges \$11,538 and \$6,410 respectively, from Systematic Information. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic Information.

On April 1, 2005, we entered into a lease agreement with Systematic Information pursuant to which we lease one residential property for Mr. Yang's personal use for a monthly lease payment of \$3,205. Upon expiration of the lease on June 15, 2007, ACL acquired this residential property from Systematic Information. We incurred and paid an aggregate rent expense of \$17,521 and \$38,462 to Systematic Information during the year ended December 31, 2007 and 2006.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from SCB.

Transactions with Aristo Technologies Ltd.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and the sole beneficial owner of Aristo Technologies Ltd. (Aristo). During the years ended December 31, 2007 and 2006, we sold \$17,165,728 and \$11,986,047, respectively, to Aristo. Outstanding accounts receivable totaled \$6,237,905 and \$662,972 as of December 31, 2007 and 2006, respectively. We have not experienced any bad debt from this customer in the past.

During the years ended December 31, 2007 and 2006, we purchased inventories of \$3,633,424 and \$1,584,985, respectively, from Aristo. As of December 31, 2007 and 2006, there was no outstanding accounts payable to Aristo.

Aristo has historically met its payment obligations to the Company and the Company has no reason to believe that Aristo's receivables are not collectible. In addition, as discussed in Note 14, the Company entered into a payment plan with Aristo according to which the outstanding balance of accounts receivable will be paid over the course of 2010 which payment plan contains a due on demand clause.

Transactions with Global Mega Development Ltd.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Global Mega Development Ltd. (Global). During the years ended December 31, 2007 and 2006, we received management fee of \$5,769 and \$7,692 respectively, from Global. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Global. The management fees were charged for back office support for Global.

Transactions with Intelligent Network Technology Ltd.

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is a director and 80% shareholder of Intelligent Network Technology Ltd. (Intelligent). The remaining 20% of Intelligent is owned by a non-related party. During the years ended December 31, 2007 and 2006, we received a management fee of \$0 and \$7,692 respectively, from Intelligent. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Intelligent. The management fees were charged for back office support for Intelligent.

Transactions with Systematic Semiconductor Ltd. (Systematic)

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2007 and 2006, we received a management fee of \$16,026 and \$15,384 respectively, from Systematic. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic. The management fees were charged for back office support for Systematic.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2007 AND 2006 AND****THE YEARS ENDED DECEMBER 31, 2007 AND 2006****Note 12. Related Party Transactions, Continued
Transactions with First World Logistics Ltd.**

Mr. Yang the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of First World Logistics Ltd. (First). During the years ended December 31, 2007 and 2006, we sold \$0 and \$7,720,975 respectively to First.

During the years ended December 31, 2007 and 2006, we purchased inventories for \$0 and \$825,900 respectively from First. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from First.

Transactions City Royal Limited

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a 50% shareholder of City Royal Limited (City). The remaining 50% of City is owned by the wife of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (DBS Bank).

Note 13. Quarterly Information (Unaudited)

The summarized quarterly financial data presented below reflects all adjustments, which in the opinion of management, are of a normal and recurring nature necessary to present fairly the results of operations for the periods presented.

| | (dollars in thousands except per share data) | | | | |
|---|--|---------------|--------------|---------------|--------------|
| | Total | Fourth | Third | Second | First |
| <u>2007</u> | | | | | |
| Total net sales | \$ 160,401 | \$ 52,740 | \$ 43,895 | \$ 31,731 | \$ 32,035 |
| Gross profit | 3,871 | 831 | 1,643 | 510 | 887 |
| Net income (loss) | 436 | 6 | 538 | (174) | 66 |
| Net income (loss) per share: basic and diluted | 0.02 | 0.00 | 0.02 | (0.01) | 0.00 |
| <u>2006 (As Restated) (1)</u> | | | | | |
| Total net sales | \$ 105,642 | \$ 29,283 | \$ 30,139 | \$ 21,044 | \$ 25,176 |
| Gross profit | 4,098 | 1,228 | 1,203 | 716 | 951 |
| Net income (loss) | 450 | 239 | 176 | (79) | 114 |
| Net income (loss) per share: basic and diluted | 0.02 | 0.01 | 0.01 | (\$0.00) | \$0.00 |

(1) The unaudited selected financial data for the quarters ended December 31, 2006, September 30, 2006, June 30, 2006, and March 31, 2006 has been restated to reflect adjustments related to stock based compensation.

Note 14. Subsequent Events (Unaudited):

Effective as of October 1, 2009, Classic, a related party, and the Company agreed to a payment plan for the pay down of accounts receivable from Classic of \$1,717,320 as of June 30, 2009 according to which Classic has agreed to pay to the Company \$650,000 before the end of 2009 with the remainder of the accounts receivable balance to be paid during 2010. Mr. Alan Yang, our Chief Executive Officer, director and majority stockholder has personally guaranteed up to \$10 million of outstanding accounts receivable of Classic.

Effective as of October 1, 2009, Aristo, a related party, and the Company agreed to a payment plan for the pay down of accounts receivable from Aristo that have aged more than 90 days according to which Aristo has agreed to pay to the Company over the course of 2010. Mr. Alan Yang, our Chief Executive Officer, director and majority stockholder is the sole beneficial owner of Aristo.

On November 2, 2009, the Company entered into two leases for office space. The leases expire on November 30, 2014. The monthly lease payments are \$4,487 and \$7,051, respectively.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND

THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Note 15. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2006 was restated to reflect the omission of the issuance of 500,000 common shares of the Company to a consultant as the consulting and advisory service fee in May 16, 2006 under the Company's share option scheme. The following financial statement line items for the year ended December 31, 2006 were affected by the omission.

| | As Previously Reported | Adjustments | As Restated |
|--|---------------------------|---------------|----------------|
| <u>Consolidated Statement of Operations</u> | | | |
| <u>for the year ended December 31, 2006</u> | | | |
| General and administrative expenses | \$ 2,167,057 | \$ 105,000 | \$2,272,057 |
| Income from operations | 1,139,601 | (105,000) | 1,034,601 |
| Income before income taxes | 718,819 | (105,000) | 613,819 |
| Net profit | 555,404 | (105,000) | 450,404 |
| Earnings per share - basic and diluted | \$ 0.02 | \$ | \$0.02 |
| Weighted average number of shares | 27,829,936 | 324,068 | 28,154,004 |
| <u>Consolidated Balance Sheet as of December 31, 2006</u> | | | |
| Common Stock | \$ 27,830 | \$ 500 | \$28,330 |
| Additional paid in capital | 3,488,527 | 104,500 | 3,593,027 |
| Accumulated deficit | (1,969,269) | (105,000) | (2,074,269) |
| Total stockholders' equity | \$ 2,460,551 | \$ | \$2,460,551 |
| <u>Consolidated Statement of Cash Flows</u> | | | |
| <u>For the year ended December 31, 2006</u> | | | |
| Cash flows provided by/(used for) operating activities: | | | |
| Net income | \$ 555,404 | \$ (105,000) | \$450,404 |
| Adjustments to reconcile net income to net cash provided by/(used for) operating activities: | | | |
| Issuance of common stocks to a consultant as consulting and advisory service fee under share option scheme | | 105,000 | 105,000 |
| Total Adjustments to reconcile net income to net cash provided by/(used for) operating activities: | (6,842,530) | 105,000 | (6,737,530) |
| Net cash provided by/(used for) operating activities | \$ (6,287,126) | \$ | \$(6,287,126) |

| | As Originally Reported | Effect of Omission | As Adjusted |
|---|---------------------------|-----------------------|----------------|
| <u>Consolidated Statement of Stockholder's Equity</u> | | | |
| <u>for the year ended December 31, 2006</u> | | | |
| Common stock: | | | |
| Balance at December 31, 2005 (27,829,936 shares) | \$ 27,830 | \$ | \$27,830 |
| Issuance of common stock to a consultant as consulting and servicing fee (500,000 shares) | | 500 | 500 |
| Balance at December 31, 2006 (28,329,936 shares) | \$ 27,830 | \$500 | \$28,330 |
| Additional paid-in capital: | | | |
| Balance at December 31, 2005 | \$ 3,360,405 | \$ - | \$3,360,405 |
| Issuance of common stock to a consultant as consulting and servicing fee | | 104,500 | 104,500 |
| Issuance of common stock for option issued to employees | 128,122 | | 128,122 |
| Balance at December 31, 2006 | \$ 3,488,527 | \$104,500 | \$3,593,027 |
| Computed tax at federal statutory rate | \$ 244,398 | \$ | \$244,398 |
| Tax rate differential on foreign earnings of Atlantic Components Ltd., a Hong Kong based company | (154,077) | (35,700) | (189,777) |
| Net operating loss carry forward | 73,094 | 35,700 | 108,794 |
| Other | | | |
| | \$ 163,415 | \$ | \$163,415 |
| The Components of the deferred tax assets and liabilities as at December 31, 2006 are as follows: | | | |
| Net operating losses | \$ 987,840 | \$35,700 | \$1,023,540 |
| Total deferred tax assets | \$ 987,840 | \$35,700 | \$1,023,540 |
| Less: valuation allowance | (987,840) | (35,700) | (1,023,540) |
| | \$ | \$ | \$ |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS AND RESERVES****YEARS ENDED DECEMBER 31, 2007 AND 2006**

| | Balance at the Beginning of the Year | Charged to Costs and Expenses | Deductions | Balance At the End of the Year |
|--|---|--|------------|--------------------------------------|
| Allowance for Doubtful Accounts: | | | | |
| Year ended December 31, 2006 | \$ | \$ | \$ | \$ |
| Year ended December 31, 2007 | \$ | \$ | \$ | \$ |
| Inventory Obsolescence Reserve: | | | | |
| Year ended December 31, 2006 | \$ 141,026 | \$ 100,000 | \$ | \$ 241,026 |
| Year ended December 31, 2007 | \$ 241,026 | \$ 323,077 | \$ | \$ 564,103 |
| Valuation Allowance for Deferred Tax Assets: | | | | |
| Year ended December 31, 2006 | \$ 914,746 | \$ 73,097 | \$ | \$ 987,840 |
| Year ended December 31, 2007 | \$ 987,840 | \$ 69,152 | \$ | \$ 1,056,992 |