

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. 1)**

(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, 2008

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:

Name of each exchange on which registered:

Common Stock, \$0.001 par value

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 No

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

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 No

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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.

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 Accelerated filer Non-accelerated filer Smaller reporting company
(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 No
The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2008 was approximately \$1,427,985 based upon the closing price of \$0.24 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 13, 2009 was 28,729,936.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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EXPLANATORY NOTE

This Amendment No. 1 to ACL Semiconductors, Inc.'s (the Company) Annual Report on Form 10-K/A for the year ended December 31, 2008 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, Item 1A and Item 2 of Part I, Item 5, Item 6, Item 7 and Item 9AT of Part II, Item 10, Item 11 and Item 13 of Part III, Report of Independent Registered Public Accounting Firm, Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity (Deficit), Consolidated Statements of Cash Flows, and the Notes to Consolidated Financial Statements. No other information included in the original Form 10-K 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 14, 2009, 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.

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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, 2008, 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 2008, Samsung NAND Flash revenue was approximately US\$4,614 million, representing 40.4% 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-throughput 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

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As of December 31, 2008, the Company had over 150 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 4% and 11% of the Company s net sales for the year ended December 31, 2008 and 2007. Other

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than the Company's most significant customer who accounted for 43% of the Company's net sales for the years ended December 31, 2008, no other customer accounted for more than 25% of the Company's net sales for 2008 and 2007, 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, 2008, 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, 2008, 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 brand name 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, 2008, 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, 2008, 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 brand name 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.

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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, 2009, 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, 2008, 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.

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

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 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, 2010, 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, 2008.

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, 2009 | | |
| Quarter ended March 31, 2009 | \$ 0.28 | \$ 0.14 |
| Fiscal Year ended December 31, 2008: | | |
| Quarter ended December 31, 2008 | \$ 0.40 | \$ 0.15 |
| Quarter ended September 30, 2008 | \$ 0.40 | \$ 0.21 |
| Quarter ended June 30, 2008 | \$ 0.27 | \$ 0.12 |
| Quarter ended March 31, 2008 | \$ 0.15 | \$ 0.09 |
| Fiscal Year ended December 31, 2007 | | |
| Quarter ended December 31, 2007 | \$ 0.10 | \$ 0.07 |
| Quarter ended September 30, 2007 | \$ 0.14 | \$ 0.07 |
| Quarter ended June 30, 2007 | \$ 0.15 | \$ 0.10 |
| Quarter ended March 31, 2007 | \$ 0.11 | \$ 0.10 |

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 6, 2009, the last reported sale price of our Common Stock, as reported by the OTC Bulletin Board, was \$0.20 per share.

As of April 6, 2009, there were approximately 209 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.

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 Directors' 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.

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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, 2008, 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, 2008, we had over 150 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 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, 2008 and 2007, the largest 5 customers accounted for 64% and 61% of our net sales, respectively. As of December 31, 2008, we had net current liabilities of \$31,152,455 and an accumulated deficit of \$2,560,216. We generated net sales of \$206,082,770 for the year ended December 31, 2008 and recorded a net loss of \$922,039. In addition, during the year ended December 31, 2008, net cash provided by operating activities amounted to \$174,125.

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.

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Net sales

Net sales are recognized upon the transfer of legal title of the electronic components to customers. As of December 31, 2008 we had over 150 active customers.

Net sales for fiscal year 2008 were \$206,082,770, which increased by 28% or \$45,677,846 compared to fiscal year 2007. The major sales increase came from the first half of 2008 due to expansion in China market share and the reduction in production capacities by Samsung's rival, Hynix, and other memory makers, which led to larger demand for Samsung's products. The net sales for the quarter ended December 31, 2008 (2008 4th Quarter) was \$56,609,629, representing an increase of 7% compared to \$52,743,506 for the quarter ended December 31, 2007 (2007 4th Quarter). The sales increase is clearly smaller due to the impact on market demand, financial support and cash flow due to recent economic conditions. More memory makers such as Qimonda, Elpida and Micron reported strong cutbacks in production capacities to clear up excess supply. With large amounts of supplies pouring into the market, the prices of memory components have dropped significantly. Through the Company's expanded network, sales volume has increased significantly to maintain high sales turnover during recent economic conditions.

The Company's gross profit for fiscal year 2008 was \$4,201,977, representing a 9% increase compared to \$3,871,289 for fiscal year 2007. The growth was due to the successful promotional campaign with Samsung in the second quarter and the high demand for consumer electronics from the Olympic Games in the third quarter. The gross profit for 2008 4th Quarter was \$595,905, as compared to \$831,161 for 2007 4th Quarter, representing a 28% decrease. The gross profit margin for the Company for 2008 4th Quarter was 1.05%, compared to 1.58% for the corresponding quarter in 2007. The decrease in gross profit margin was mainly due to low unit prices caused by oversupply of products. Even though manufacturers reduced their production capacities, recent economic conditions still have a strong impact on market demand. This has led to inventory consumption problems and caused manufacturers to dump excess inventories at very low prices. Due to slow price adjustments from Samsung, the Company had to bear the difference between the contract prices and market prices, which caused the gross profit margin to decrease. Furthermore, it has also affected the Company's commission income.

The Company reported income from operations of \$26,656 and loss before income tax of \$955,910 for fiscal year 2008. The results were adversely affected mainly due to losses in book value of non-cash items, such as a decrease in the value of the Company's real property assets of \$883,117 and adjustments due to unrealized gains on securities of \$227,781. The adjustment of unrealized gains on securities is due to sales of investment securities at a lower value on June 20, 2008 compared to December 31, 2007. The unrealized loss on revaluation of the Company's real property assets was due to the property market downturn caused by recent economic conditions and the determination of the unrealized loss on revaluation was made by the Company's Board of Directors based on its direct comparison of the Company's book value of such real properties against the quoted market prices of comparable properties in Hong Kong. The Company engaged an independent professional surveyor to inform its analysis, but management of the Company assumes full responsibility for such determination. The real properties which the Company owns are exclusively properties in Hong Kong.

The Company predicts that the demand for memory components will start to increase as supplies decrease due to the reduction in production capacities and as excess inventory levels decrease. The Company forecasts that the unit price of memory components will increase in the first quarter of 2009. Moreover, the Company believes that Samsung will further strengthen its cost competitiveness by increasing its 56nm DRAM market share, and its 35nm and 42nm NAND flash market share. This would greatly increase the Company's gross profit margin. Furthermore, the Company believes that the current situation may present opportunities for Samsung to further increase its market share while the other memory makers are reducing their production capacities or restructuring. The Company believes its sales turnover and gross profit margin will increase by a sufficient amount in 2009.

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 97.9% for the year ended December 31, 2008 and approximately 97.6% for the year ended December 31, 2007.

Operating Expenses

Our operating expenses for the years ended December 31, 2008 and 2007 were comprised of sales and marketing, general and administrative expenses.

Selling and marketing expenses consisted primarily of costs associated with transportation 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

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level in 2009. 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 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.

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 collectability 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, 2008 and 2007 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.

| | Year Ended December 31, | |
|---------------|-------------------------|-------------|
| | (US\$) | |
| | 2008 | 2007 |
| Net sales | 206,082,770 | 160,404,924 |
| Cost of sales | 201,820,793 | 156,553,635 |
| Gross profit | 4,201,977 | 3,871,289 |

Operating expenses:

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| | | |
|---|-----------|-----------|
| Sales and marketing | 76,072 | 69,260 |
| General and administrative | 4,099,299 | 2,942,542 |
| Total operating expenses | 4,175,321 | 3,011,802 |
| Income from operations | 26,656 | 859,487 |
| Other income (expenses) | (982,566) | (235,562) |
| (Loss) income before income taxes provision | (955,910) | 623,925 |
| Income taxes (reversal) provision | (33,871) | 187,833 |
| Net (loss) income | (922,039) | 436,092 |

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Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007*Net Sales*

| Year Ended December 31, | | |
|--------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |

\$ 206,082,770 \$ 160,404,924 28.5%

Sales increased by \$45,677,846 or 28.5% from \$160,404,924 for the year ended December 31, 2007 to \$206,082,770 for the year ended December 31, 2008. The increase was mainly due to expansion in South China market share and the reduction in production capacities by Samsung, resulting in a higher turnover when compared to the year ended December 31, 2007.

Cost of Sales

| Year Ended December 31, | | |
|--------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |

\$ 201,880,793 \$ 156,533,635 29.0%

Cost of sales increased \$45,347,158 or 29%, from \$156,533,635 for the year ended December 31, 2007 to \$201,880,793 for the year ended December 31, 2008. The cost of sales increased in proportion to the increase of net sales and reduction of commission by Samsung.

Gross Profit

| Year Ended December 31, | | |
|--------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |

\$ 4,201,977 \$ 3,871,289 8.5%

Gross profit increased by \$330,688 or 8.5% from \$3,871,289 for the year ended December 31, 2007 to \$4,201,977 for the year ended December 31, 2008. The slight increase in gross profit amount is mainly due to the increase in net sales. The gross profit percentage decreased to 2% of revenue for the year ended December 31, 2008 compared to 2.4% of revenue for the year ended December 31, 2007, as a result of recent economic conditions that have had a strong impact on market demand and low unit prices caused by oversupply. We expect the gross profit for the year ended December 31, 2009 to remain at approximately the same level as in the year ended December 31, 2008.

Sales and Marketing

| Year Ended December 31, | | |
|------------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |

\$ 76,072 \$ 69,260 9.8%

Sales and marketing expenses increased by \$6,812, or 9.8%, from \$69,260 for the year ended December 31, 2007 to \$76,072 for the year ended December 31, 2008. The increase was in proportion to the increase in net sales for the year 2008. We expect the sales and marketing expenses for the year ended December 31, 2009 to remain at approximately the same level as the year ended December 31, 2008.

General and Administrative

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| Year Ended December 31, | | |
|-------------------------|------|-------------|
| 2008 | 2007 | % Change |

\$ 4,099,249 \$ 2,942,542 39.3%

General and administrative expenses increased \$1,156,707 or 39.3% from \$2,942,542 for the year ended December 31, 2007 to \$4,099,249 for the year ended December 31, 2008. This increase was primarily attributable to an increase in Shenzhen office expenses during the year 2008 and an unrealized loss on values of our real property assets in the aggregate amount of \$883,117. We intend to continue to keep general and administrative expenses for the year ended December 31, 2009 at approximately the same level as the year ended December 31, 2008. The loss on value of our real property assets in the aggregate amount of \$883,117 was determined by the Board of Directors of the Company based on the fair value of such properties as of December 31, 2008 as compared to the book

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value of such properties prior thereto. In valuing our property assets, we used a direct comparison methodology and assumed vacant possession on existing use and that general economic and market conditions would not materially change in the foreseeable future. The Company engaged an independent professional surveyor to inform its analysis, but management of the Company assumes full responsibility for such determination.

Income from Operations

| Year Ended December 31, | | |
|------------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |
| | | |

\$ 26,656 \$ 859,487 -96.9%

Income from operations was \$26,656 for the year ended December 31, 2008 compared to \$859,487 for the year ended December 31, 2007, a decrease of \$832,831. This increase was mainly due to unrealized losses on values of the Company's real property assets of \$883,117 net of increase in gross profit.

Interest Expense

| Year Ended December 31, | | |
|--------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |
| | | |

\$ 1,073,795 \$ 1,009,006 6.4%

Interest expense increased \$64,789, or 6.4%, from interest expense of \$1,009,006 in the year ended December 31, 2007, to \$1,073,795 in the year ended December 31, 2008. This increase was mainly due to an increase in the Company's need to open and draw down on letters of credit to obtain goods from its suppliers. We expect to keep interest expenses for the year ended December 31, 2009 at approximately the same level as in the year ended December 31, 2008.

Unrealized Gains on Pledged Marketable Securities

| Year Ended December 31, | | |
|------------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |
| | | |

\$ \$ 404,780 N/A

Unrealized gains on pledged marketable securities decreased by \$404,780 from \$404,780 in the year ended December 31, 2007, to \$0 in the year ended December 31, 2008. This decrease was mainly due to all pledged marketable securities being sold during the year ended December 31, 2008. The profits were reclassified to the loss on disposal of marketable securities.

Loss on Disposal of Marketable Securities

| Year Ended December 31, | | |
|------------------------------------|-------------|---------------------|
| 2008 | 2007 | % Change |
| | | |

\$ (227,781) \$ N/A

Loss on disposal of marketable securities increased by \$227,781, from \$0 in the year ended December 31, 2007 to \$227,781 in the year ended December 31, 2008. This increase was due to sales of marketable securities at profits of \$176,999 during the year end December 31, 2008, adjusted to reflect losses of \$227,781 after deductions of \$404,780 of unrealized gains as recognized revenue in the year ended December 31, 2007.

Net Income on Cash Flow Hedge

| Year Ended December 31, | | |
|----------------------------|------|-------------|
| 2008 | 2007 | % Change |

\$ 161,288 \$ 64,590 149.7%

Net income on cash flow hedge increased by \$96,698 from \$64,590 in the year ended December 31, 2007 to \$161,288 in the year ended December 31, 2008. This increase was due to the Company entering into more currency hedging contracts through its banks in 2008. Details of the currency hedging contracts can be found in Note 11 on page F-21.

Interest Income

| Year Ended December 31, | | |
|----------------------------|------|-------------|
| 2008 | 2007 | % Change |

\$ 90,706 \$ 169,055 -46.3%

Interest income decreased by \$78,349 from \$169,055 in the year ended December 31, 2007 to \$90,706 in the year ended December 31, 2008 principally as a result of a reduction in interest rates during 2008.

Income Tax Provision (reversal)

| Year Ended December 31, | | |
|----------------------------|------|-------------|
| 2008 | 2007 | % Change |

\$ (33,871) \$ 187,833 -118.0%

Income tax provision decreased by \$221,704 from \$187,833 for the year ended December 31, 2007 compared to income tax credits of \$33,871 for the year ended December 31, 2008. This decrease in income tax provision in 2008 was attributable to a refund for income tax expenses paid in previous years rather than a decrease in net income in 2008 from 2007.

Net Income

| Year Ended December 31, | | |
|----------------------------|------|-------------|
| 2008 | 2007 | % Change |

\$ (922,039) \$ 436,092 -311.4%

Our net income decreased by \$1,358,131 from \$436,092 for the year ended December 31, 2007 compared to a net loss of \$922,039 for the year ended December 31, 2008. This decrease was mainly due to the decrease in profit margin and other income and the increase in the provision for impairment loss on valuation of the Company's real property assets.

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.

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As of December 31, 2008, the Company had revolving lines of credit and loan facilities in the aggregate amount of \$30,943,589, of which \$11,334,309 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-15 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. Subsequent to December 31, 2008, the Company terminated two credit lines with the banks in an aggregate amount of \$2,884,616 or 9.3% of the Company's total credit and loan facilities. In connection therewith, \$1,597,436 of restricted bank deposits which were previously used to secure such lines of credit were released to the Company. As a result of the general tightening of credit markets in Hong Kong and Asia, many lenders have revised the terms of their revolving credit lines to levels the Company did not deem commercially reasonable. Accordingly, on a case by case basis, the Company has elected to terminate or not renew several of its credit facilities resulting in a significant reduction in the Company's available short term borrowings.

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To address the reduction in available credit facilities, the Company is relying on its own cash reserves and cash flows from operations to fund its ongoing operations and has tightened the credit terms it extends to its customers. As a result, the Company does not expect that the reduction in available credit facilities is going to have a materially adverse impact upon its operations for the foreseeable future.

The Company will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that the Company will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. In addition, if the results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

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, 2008, net cash provided by operating activities amounted to \$174,125 while in the year ended December 31, 2007, it amounted to \$1,125,907, a decrease of \$951,782. This decrease was primarily due to a \$3,092,645 increase in accounts receivable, which was partially offset by a \$1,613,799 decrease in inventory, and increases of \$1,077,494 in accounts payable and \$210,017 of accrued expenses.

Net Cash Used for Investing Activities

In the year ended December 31, 2008, net cash used for investing activities amounted to \$616,615 while in the year ended December 31, 2007, it amounted to \$6,412,547, a decrease of \$5,795,932. This decrease was primarily due to sales of investments in marketable securities and no real property acquisition activity during the year 2008.

Net Cash Provided by Financing Activities

In the year ended December 31, 2008, net cash provided by financing activities amounted to \$629,171 while in the year ended December 31, 2007, it amounted to \$5,436,828, a decrease of \$4,807,657. This decrease was due to the Company repayment of certain bank lines of credit and cancellation of bank facilities.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2008 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 | 78,433 | 53,333 | 25,100 | | |
| Line of credit and notes payable - short-term | 16,447,742 | 16,447,742 | | | |
| Short term loans | 10,016 | 10,016 | | | |
| Long term loans | 2,613,994 | 209,114 | 359,232 | 257,789 | 1,787,859 |

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| | | | | | |
|-------------------------------|---------------|---------------|------------|------------|--------------|
| Total Contractual Obligations | \$ 19,150,185 | \$ 16,720,205 | \$ 384,332 | \$ 257,789 | \$ 1,787,859 |
|-------------------------------|---------------|---------------|------------|------------|--------------|

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 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.

In April 2008, the FASB issued FSP SOP 90-7-1, *An Amendment of AICPA Statement of Position 90-7*. This FSP resolves the conflict between the guidance requiring early adoption of new accounting standards for entities required to follow fresh-start reporting under AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, and other authoritative accounting standards that expressly prohibit early adoption. This FSP shall be effective for financial statements issued subsequent to the date of issuance of this FSP. The Company does not anticipate that this new FSP will have any material impact upon its preparation of its financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of

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a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), Business Combinations, and other U.S. generally accepted accounting principles (GAAP). This FSP shall be effective for financial statements issued for fiscal years beginning after

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December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company does not anticipate that this new FSP will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With General Accepted Accounting Principles*. The Company does not anticipate that SFAS No. 162 will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, *Accounting for Financial Guarantee Insurance Contracts* (an interpretation of FASB Statement No. 60 (SFAS No. 163)). SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities. The Company does not anticipate that SFAS No. 163 will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*. This FSP makes several changes to the guidance on consolidation and the equity method of accounting in AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*. The guidance in this FSP shall be applied to fiscal years beginning after June 15, 2008, and to interim periods therein. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. The guidance in this FSP applies to the calculation of EPS under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In August 2008, the FASB issued FSP FSA 117-1, *Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. This FSP will be effective for fiscal years ending after December 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

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In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP applies to credit derivatives within the scope of Statement 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP shall be effective for reporting periods (annual or interim) ending after November 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. This FSP amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require public entities to provide additional disclosures about transfer of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This FSP will be applied to the first reporting period (interim or annual) ending after December 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In December 2008, the FASB issued FSP FAS 132 (R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FASB Statement No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP shall be applied to fiscal years ending after December 15, 2009. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In December 2008, the FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. This 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 will be effective upon issuance. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

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 Control 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, 2008 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, 2008.

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,

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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;

there is insufficient review of related party transactions; and

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.

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, 2008 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, 2008, and their biographical information are set forth below:

| NAME | AGE | POSITION |
|----------------------|-----|--|
| Chung-Lun Yang | 47 | Chairman of the Board of Directors and Chief Executive Officer |
| Ben Wong | 45 | Director |
| Kenneth Lap-Yin Chan | 46 | 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, 2008, our Board of Directors held 4 meetings. No director who served during the fiscal year ended December 31, 2008 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 four 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, 2008 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, 2008 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/A 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, attainment 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 2008 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 2008.

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, 2008.

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, 2008 and December 31, 2007.

Summary Compensation Table

| Name and Principal Position | Year ⁽¹⁾ | Salary (\$) | Bonus ⁽²⁾ (\$) | Stock Awards ⁽³⁾ (\$) | Option Awards ⁽⁴⁾ (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--|----------------------------|------------------------|--|---|--|--|---|--|-----------------------|
| Chung-Lun | 2008 | \$ 735,026 | | | | | | \$ | \$ 735,026 |
| Yang, Chief Executive Officer and Chairman of the Board | 2007 | \$ 812,821 | | | | | | \$ 17,521 | \$ 830,342 |
| Kenneth Lap | 2008 | \$ 64,615 | | | | | | \$ | \$ 64,615 |
| Yin Chan, Chief Financial Officer | 2007 | \$ 72,435 | | | | | | \$ | \$ 72,435 |

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Mr. Yang's other annual compensation includes rent and housing allowance in the amount of \$0 for the year ended December 31, 2008 and \$17,521 for the year ended December 31, 2007.

Outstanding equity awards at fiscal year-end

None.

Compensation of Directors

Except with respect to Ben Wong who was paid fees of \$64,615 during the year ended December 31, 2008, none of our directors who served during the year ended December 31, 2008 received compensation for serving as such, other than reimbursement for out of pocket expenses incurred in attending director meetings.

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, 2008: (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, 2008. 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 | Shares of Common Stock | Percentage of Class |
|---|---------------------------|--------------------------|
| Beneficial Owner | Beneficially Owned | 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, 2008, together with securities exercisable or convertible into shares of Common Stock within 60 days of December 31, 2008, 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, 2008, 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, 2008 and 2007, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling \$39,633 and \$75,998. These advances bear no interest and are payable on demand.

For the years ended December 31, 2008 and 2007, we recorded compensation to Mr. Yang of \$735,026 and \$812,821 respectively, and paid \$735,026 and \$812,821 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2008 and 2007, we paid rent of \$0 and \$17,521 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. The remaining 0.1% of Classic Electronics Ltd. (Classic) is owned by a non-related party. As of December 31, 2008 and 2007, the Company had outstanding accounts receivable from Classic totaling \$1,717,320 and \$1,717,859 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.

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 1, 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. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$13,077 and \$12,385 to Solution during the years ended December 31, 2008 and 2007.

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 Standard Chartered Bank (Hong Kong) Limited (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 September 1, 2008, 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, 2010. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$7,692 and \$7,692 to Systematic Information during the years ended December 31, 2008 and 2007.

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During the years ended December 31, 2008 and 2007, we received service charges of \$0 and \$11,538 respectively from Systematic Information. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Systematic Information. The service fee was charged for back office support for 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 \$0 and \$17,521 to Systematic Information during the years ended December 31, 2008 and 2007.

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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 is the sole beneficial owner of the equity interests of Aristo Technologies Ltd. (Aristo). During the years ended December 31, 2008 and 2007, we sold products for \$9,076,034 and \$17,165,728 respectively, to Aristo. As of December 31, 2008 and 2007, outstanding accounts receivable totaled \$6,695,409 and \$6,237,905 respectively. We have not experienced any bad debt from this customer in the past.

During the years ended December 31, 2008 and 2007, we purchased inventories of \$7,393,957 and \$3,633,424 respectively from Aristo. As of December 31, 2008 and 2007, there were no outstanding accounts payable to or from 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, 2008 and 2007, we received management fees of \$0 and \$5,769 respectively from Global. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Global. The management fees were charged for back office support for Global.

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, 2008 and 2007, we received a management fee of \$15,384 and \$16,026 respectively from Systematic. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Systematic. The management fee was charged for back office support for Systematic.

Transactions with Aristo Components Ltd.

Mr. Ben Wong, one of our directors, is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2008 and 2007, we received a management fee of \$8,077 and \$0 respectively from Aristo Comp. As of December 31, 2008 and 2007, there were no outstanding accounts receivable from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

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).

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 for the audits of our annual financial statements and interim reviews of our quarterly financial statements for the years ended December 31, 2008 and December 31, 2007 and fees billed for other services rendered by JTC Fair Song CPA Firm during those periods.

| | Fiscal 2008 | Fiscal 2007 |
|------------------------|--------------------|--------------------|
| 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 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 2008 or 2007.
- (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 2008 or 2007.
- (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 2008 or 2007.

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.

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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. |

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- 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.

| Signature _____ | Title _____ | Date _____ |
|---|---|----------------------|
| /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, 2008 and December 31, 2007 and
the Years Ended December 31, 2008 and 2007

With Report of Independent Registered Public Accounting Firm

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

Board of Directors of 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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis of 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 positions of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

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 and its authorized agent to supply its inventories and this single vendor provided the majority of the Company's inventory purchases during the year ended December 31, 2008.

/s/ JTC Fair Song CPA Firm
JTC Fair Song CPA Firm
CERTIFIED PUBLIC ACCOUNTANTS

Shenzhen, China
April 14, 2009

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
ASSETS

| | December 31, | |
|--|----------------------|----------------------|
| | 2008 | 2007 |
| | <u> </u> | <u> </u> |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,784,355 | \$ 1,597,674 |
| Restricted cash | 5,169,753 | 4,203,057 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 for 2008 and 2007 | 10,230,464 | 7,594,784 |
| Accounts receivable, related parties | 8,412,729 | 7,955,764 |
| Inventories, net | 2,060,195 | 3,483,994 |
| Restricted marketable securities | 500,000 | 769,231 |
| Marketable securities | | 404,780 |
| Income tax refundable | | 49,375 |
| Other current assets | 30,051 | 83,061 |
| | <u> </u> | <u> </u> |
| Total current assets | 28,187,547 | 26,141,720 |
| Property, equipment and improvements, net of accumulated depreciation and amortization | 6,007,456 | 6,933,998 |
| Other deposits | 392,069 | 387,245 |
| | <u> </u> | <u> </u> |
| Total Assets | \$ 34,587,072 | \$ 33,462,963 |
| | <u> </u> | <u> </u> |

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, | |
|---|---------------|---------------|
| | 2008 | 2007 |
| Current liabilities: | | |
| Accounts payable | \$ 13,669,779 | \$ 12,592,685 |
| Accrued expenses | 396,755 | 186,738 |
| Lines of credit and loan facilities | 16,447,742 | 15,610,488 |
| Current portion of long-term debt | 160,447 | 135,237 |
| Current portion of capital lease | 58,683 | 44,991 |
| Income tax payable | 5,588 | |
| Due to shareholders for converted pledged collateral | 112,385 | 112,385 |
| Other current liabilities | 301,076 | 268,573 |
| Total current liabilities | 31,152,455 | 28,951,097 |
| Long-term liabilities | | |
| Long-term debt, less current portion | 2,361,711 | 2,539,242 |
| Capital lease, less current portion | 43,055 | 49,971 |
| Total long-term liabilities | 2,404,766 | 2,589,213 |
| Deferred tax | 8,343 | 15,471 |
| Total liabilities | 33,565,564 | 31,555,781 |
| 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 | (39,633) | (75,998) |
| Accumulated deficit | (2,560,216) | (1,638,177) |
| Total stockholders' equity | 1,021,508 | 1,907,182 |
| | \$ 34,587,072 | \$ 33,462,963 |

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

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | <u>December 31, 2008</u> | <u>December 31, 2007</u> |
|--|------------------------------|------------------------------|
| Net sales: | | |
| Related parties | \$ 9,076,034 | \$ 17,165,728 |
| Other | 197,020,614 | 143,321,689 |
| Less discounts to customers | (13,878) | (82,493) |
| | <u>206,082,770</u> | <u>160,404,924</u> |
| Cost of sales | <u>201,880,793</u> | <u>156,533,635</u> |
| Gross profit | 4,201,977 | 3,871,289 |
| Operating expenses: | | |
| Selling | 76,072 | 69,260 |
| General and administrative | 4,099,249 | 2,942,542 |
| | <u>4,175,321</u> | <u>3,011,802</u> |
| Income from operations | 26,656 | 859,487 |
| Other income (expenses): | | |
| Rental income | 89,231 | 37,179 |
| Interest expense | (1,073,795) | (1,009,006) |
| Provision for taxation written back | | |
| Loss on disposal of marketable securities | (227,781) | |
| Unrealized gain on marketable securities | | 404,780 |
| Management and service income | 23,462 | 33,333 |
| Net income on cashflow hedge | 161,288 | 64,590 |
| Interest income | 90,706 | 169,055 |
| Director life insurance policy refund | | 29,617 |
| Exchange differences | (48,677) | 34,672 |
| Miscellaneous: | 3,000 | 218 |
| | <u>10,172,035</u> | <u>10,003,528</u> |
| (Loss) income before income taxes [provision] | (955,910) | 623,925 |
| Income taxes provision (reversal) | (33,871) | 187,833 |
| | <u>(989,781)</u> | <u>811,758</u> |
| Net (loss) income | \$ (922,039) | \$ 436,092 |
| (Loss) earnings per share - basic and diluted | \$ (0.03) | \$ 0.02 |
| Weighted average number of shares - basic and diluted | <u>28,329,936</u> | <u>28,329,936</u> |

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

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | Common stock | | Additional paid-in capital | Due (from)/to stockholder/ Director | Accumulated deficit | Total stockholders Equity (deficit) |
|-------------------------------|--------------|-----------|----------------------------------|--|------------------------|--|
| | Shares | Amount | | | | |
| Balance at December 31, 2006 | 28,329,936 | 28,330 | 3,593,027 | 913,463 | (2,074,269) | 2,460,551 |
| Net increase in due (from)/to | | | | (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 |
| Net increase in due (from)/to | | | | 36,365 | | 36,365 |
| Net loss | | | | | (922,039) | (922,039) |
| Balance at December 31, 2008 | 28,329,936 | \$ 28,330 | \$ 3,593,027 | \$ (39,633) | \$ (2,560,216) | \$ 1,021,508 |

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

ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | Years ended December 31, | |
|---|--------------------------|-------------|
| | 2008 | 2007 |
| Cash flows provided by (used for) operating activities: | | |
| Net (loss) income | \$ (922,039) | \$ 436,092 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 238,477 | 230,614 |
| Change in inventory reserve | (190,000) | 323,077 |
| Gain on disposal of equipment | | (218) |
| Loss (Gain) on disposal of marketable securities | 227,782 | (404,780) |
| Fair value of options issued to employees | | |
| Loss on revaluation of properties | 883,116 | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets | | |
| Accounts receivable other | (2,635,680) | (5,586,310) |
| Accounts receivable related parties | (456,965) | (583,297) |
| Inventories | 1,613,799 | (553,816) |
| Refundable deposits | | |
| Income tax refundable | 49,375 | (49,375) |
| Other current assets | 53,010 | (42,124) |
| Other assets | (4,824) | (6,207) |
| Increase (decrease) in liabilities | | |
| Accounts payable | 1,077,094 | 7,582,962 |
| Accrued expenses | 210,017 | (127,486) |
| Income tax payable | 5,588 | (74,839) |
| Other current liabilities | 32,503 | (25,044) |
| Deferred tax | (7,128) | 6,658 |
| Total adjustments | 1,096,164 | 689,815 |
| Net cash provided by operating activities | 174,125 | 1,125,907 |
| Cash flows used for investing activities: | | |
| Advanced (to) from stockholders | 36,365 | (989,461) |
| Increase in restricted cash | (966,696) | (1,494,480) |
| Increase in restricted marketable securities | (500,000) | (769,231) |
| Cash Proceeds from sales of marketable securities and restricted marketable securities | 946,229 | |
| Cash Proceeds from sales of equipment | | 385 |
| Purchases of property, equipment and improvements | (132,513) | (3,159,760) |
| Net cash used for investing activities | (616,615) | (6,412,547) |
| Cash flows provided by financing activities: | | |
| Net borrowings on lines of credit and notes payable | 837,254 | 4,772,021 |
| Borrowing under long-term debt | | 801,723 |
| Principal payments under long-term debt | (152,321) | (91,625) |
| Principal payments under capital lease obligation | (55,762) | (45,291) |

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| | | |
|---|---------------------|---------------------|
| Net cash provided by financing activities | 629,171 | 5,436,828 |
| Net increase (decrease) in cash and cash equivalents | 186,681 | 150,188 |
| Cash and cash equivalents, beginning of year | 1,597,674 | 1,447,486 |
| Cash and cash equivalents, end of year | \$ 1,784,355 | \$ 1,597,674 |

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

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ACL SEMICONDUCTORS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**Supplemental disclosure of cash flow information:**

| | | |
|-------------------|--------------|--------------|
| Interest paid | \$ 1,073,795 | \$ 1,009,006 |
| Income tax paid | \$ 57,582 | \$ 305,389 |
| Income tax refund | \$ 139,289 | \$ |

Supplement schedule of non-cash investing and financing activities:

| | | |
|---|-----------|-----------|
| Capital lease obligations incurred when capital leases were entered for new automobiles | \$ 62,538 | \$ 95,898 |
|---|-----------|-----------|

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008 and 2007 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, 2008 and 2007.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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 \$190,000 for 2008 and increased by \$323,077 for 2007. Inventory obsolescence reserves totaled \$374,103 and \$564,103 as of December 31, 2008 and 2007, 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. As of December 31, 2008, the Company determined that the fair value of certain of its real property assets comprised of an apartment used as office premises and as Director's quarters by Mr. Yang, the Company's CEO and Director, had decreased from its previous book value by \$883,116. The unrealized loss on revaluation of the Company's real property assets was due to the property market downturn caused by recent economic conditions and the determination of the unrealized loss on revaluation was made by the Company's Board of Directors based on its direct comparison of the Company's book value of such real properties against the quoted market prices of comparable properties in Hong Kong. The Company engaged an independent professional surveyor to inform its analysis, but management of the Company assumes full responsibility for such determination. The real

properties which the Company owns are exclusively properties in Hong Kong.

Advertising

The Company expenses advertising costs when incurred. Advertising expense totaled \$5,618 and \$7,060 for the years ended December 31, 2008 and 2007, respectively.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008 and 2007, 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 2007 consolidated financial statements to conform to the 2008 presentation.

New Accounting Pronouncements

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.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

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.

In April 2008, the FASB issued FSP SOP 90-7-1, An Amendment of AICPA Statement of Position 90-7. This FSP resolves the conflict between the guidance requiring early adoption of new accounting standards for entities required to follow fresh-start reporting under AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, and other authoritative accounting standards that expressly prohibit early adoption. This FSP shall be effective for financial statements issued subsequent to the date of issuance of this FSP. The Company does not anticipate that this new FSP will have any material impact upon its preparation of its financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), Business Combinations, and other U.S. generally accepted accounting principles (GAAP). This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company does not anticipate that this new FSP will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With General Accepted Accounting Principles. The Company does not anticipate that SFAS No. 162 will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 (SFAS No.163). SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities. The Company does not anticipate that SFAS No. 163 will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued FSP SOP 94-3-1 and AAG HCO-1, Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations . This FSP makes several changes to the guidance on consolidation and the equity method of accounting in AICPA Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations , and the AICPA Audit and Accounting Guide, Health Care Organizations . The guidance in this FSP shall be applied to fiscal years beginning after June 15, 2008, and to interim periods therein. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities . The guidance in this FSP applies to the calculation of EPS under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In August 2008, the FASB issued FSP FSA 117-1, Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds . This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. This FSP will be effective for fiscal years ending after December 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 . This FSP applies to credit derivatives within the scope of Statement 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP shall be effective for reporting periods (annual or interim) ending after November 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities . This FSP amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , to require public entities to provide additional disclosures about transfer of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities , to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This FSP will be applied to the first reporting period (interim or annual) ending after December 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In December 2008, the FASB issued FSP FAS 132 (R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets . This FSP amends FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits , to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP shall be applied to fiscal years ending after December 15, 2009. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**Note 1. Organization and Summary of Significant Accounting Policies, Continued**

In December 2008, the FASB issued FSP FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. This 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 will be effective upon issuance. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

Note 2. Property, Equipment and Improvements:

A summary is as follows:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Land and buildings | \$ 5,672,672 | \$ 6,794,629 |
| Office equipment | 151,147 | 147,530 |
| Leasehold improvements | 187,627 | 143,553 |
| Furniture and fixtures | 13,273 | 13,273 |
| Automobiles | 373,416 | 226,056 |
| | <u>6,398,135</u> | <u>7,325,041</u> |
| Less: accumulated depreciation and amortization | 390,679 | 391,043 |
| | <u>\$ 6,007,456</u> | <u>\$ 6,933,998</u> |

Depreciation and amortization expense for property, equipment, and improvements amounted to \$238,477 and \$230,614 for the years ended December 31, 2008 and 2007 respectively.

Note 3. Revolving Lines of Credit and Loan Facilities

The Company has available to it a \$5,128,205 revolving line of credit with DBS Bank with an outstanding balance of \$4,722,616 at December 31, 2008 and \$5,635,176 at December 31, 2007. 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, 2008. The weighted average interest rate approximated 4.4% for 2008 and 6.7% for 2007.

The Company has available to it a \$5,769,231 factoring facility with recourse with DBS Bank without any outstanding balance at December 31, 2008. The factoring facility bears a 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, 2008. The weighted average interest rate approximated 4.4% for 2008 and 6.7% for 2007.

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, 2008 and the letter of guarantee will expire on October 31, 2009. The line of credit bears a commission of 1.5% per annum which will be refunded on a pro-rata basis upon return and cancellation of the letter of guarantee.

The Company has available to it a \$6,410,256 revolving line of credit with SCB with an outstanding balance of \$5,742,934 at December 31, 2008 and \$3,709,379 at December 31, 2007. 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 other foreign currency facilities as of

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December 31, 2008. The weighted average interest rate approximated 5.1% for 2008 and 7.4% for 2007.

The Company has available to it a \$5,128,205 factoring facility with SCB with an outstanding balance of \$1,753,562 at December 31, 2008. The factoring facility bears discounting charges at the bank's standard bills rate less 0.75% rate for advances in HKD or the bank's standard bills rates less 0.75% for advances in other currency as of December 31, 2008. The weighted average interest rate approximated 4.9% for 2008 and 7.2% for 2007.

The Company has available to it a \$2,307,692 revolving line of credit with The Bank of East Asia, Limited (BEA) with an outstanding balance of \$2,060,747 at December 31, 2008 and \$2,303,868 at December 31, 2007. The line of credit bears interest at the higher of Hong Kong prime rate plus 0.25% or HIBOR plus 1% for HKD facilities and LIBOR plus 2% for other currency facilities as of December 31, 2008. The weighted average interest rate approximated 5.9% for 2008 and 7.9% for 2007.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**Note 3. Revolving Lines of Credit and Loan Facilities, Continued**

The Company has available to it a \$1,153,846 revolving line of credit with Citic with an outstanding balance of \$1,014,883 at December 31, 2008 and \$2,297,061 at December 31, 2007. The line of credit bears interest at the higher of the Hong Kong prime rate less 1.5% or HIBOR plus 2% as of December 31, 2008. The weighted average interest rate approximated 4.1% for 2008 and 7.4% for 2007.

The line of credit granted by Hang Seng Bank Limited (Hang Seng) to the Company matured on September 19, 2008. The outstanding balances with Hang Seng were \$0 at December 31, 2008 and \$1,665,003 at December 31, 2007. The line of credit bore interest at a rate of the Hong Kong prime rate less 0.5% for HKD facilities and at a rate of the bank's board rate less 0.25% for USD facilities as of December 31, 2007. The weighted average interest rate approximated 5% for 2008 and 7.4% for 2007.

The Company has available to it a \$1,602,564 revolving line of credit with the ICBC with an outstanding balance of \$1,153,000. The line of credit bears interest at the higher of the Hong Kong prime rate less 0.5% or HIBOR plus 3% for HKD facilities and a rate of the bank's board rate less 0.5% for foreign currency facilities as of December 31, 2008. The weighted average interest rate approximated 5.1% for 2008.

The summary of banking facilities at December 31, 2008 is as follows:

| | <u>Granted Facilities</u> | <u>Utilized Facilities</u> | <u>Not Utilized Facilities</u> |
|---------------------|---------------------------|----------------------------|--------------------------------|
| Overdraft | \$ 282,051 | \$ | \$ 282,051 |
| Installment Loan | 2,776,923 | 2,522,273 | 254,650 |
| Factoring Loan | 10,897,436 | 1,753,562 | 9,143,874 |
| Import/Export Loan | 16,602,564 | 14,694,180 | 1,908,384 |
| Letter of Guarantee | 384,615 | 384,615 | |
| | <u>\$ 30,943,589</u> | <u>\$ 19,354,630</u> | <u>\$ 11,588,959</u> |

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**Note 4. Long-Term Debt**

A summary is as follows as of December 31:

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| 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 | \$ 1,648,222 | \$ 1,719,704 |
| 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 | 112,312 | 153,052 |
| 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 | 761,624 | 801,723 |
| | <u>2,522,158</u> | <u>2,674,479</u> |
| Less: current maturities | 160,447 | 135,237 |
| | <u>\$ 2,361,711</u> | <u>\$ 2,539,242</u> |
| An analysis of long-term debt as of December 31 is as follows: | | |
| Current portion | <u>\$ 160,447</u> | <u>\$ 135,237</u> |
| After 1 year, but within 2 years | 316,063 | 290,618 |
| After 2 years, but within 5 years | 257,789 | 247,571 |
| After 5 years | 1,787,859 | 2,001,053 |
| | <u>2,361,711</u> | <u>2,539,242</u> |
| | <u>\$ 2,522,158</u> | <u>\$ 2,674,479</u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**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 Components Ltd (Atlantic), a wholly owned subsidiary of ACL, a security interest on a residential property located in Hong Kong owned by City, a related party, plus a personal guarantee by Mr. Yang as collateral for loans from DBS Bank;
2. a fixed cash deposit of \$1,380,010 (HK\$10,764,075) plus an unlimited personal guarantee by Mr. Yang, as collateral for loans from BEA;
3. a cash deposit/securities not less than \$2,051,282 (HK\$16,000,000), 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 \$1,015,407 (US\$756,402 plus HK\$2,020,236), a security interest on a 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. a cash deposit not less than \$641,025 (HK\$5,000,000) plus an unlimited personal guarantee by Mr. Yang as collateral for loans from ICBC.

Note 5. Capital Lease Obligations

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

| | <u>2008</u> | <u>2007</u> |
|---------------------|----------------|---------------|
| Current portion | \$ 58,683 | \$ 44,991 |
| Non-current portion | 43,055 | 49,971 |
| | <u>101,738</u> | <u>94,962</u> |

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

| | <u>2008</u> | <u>2007</u> |
|--------------------|----------------|---------------|
| Cost | \$ 193,514 | \$ 46,154 |
| Less: depreciation | 51,463 | 6,923 |
| | <u>142,051</u> | <u>39,231</u> |

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

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|------------------|
| Total minimum lease payments | | |
| -Within one year | \$ 65,055 | \$ 50,381 |
| - After one year but within 5 years | 47,329 | 56,081 |
| | 112,384 | 106,462 |
| Interest expenses relating to future periods | (10,646) | (11,500) |
| Present value of the minimum lease payments | <u>\$ 101,738</u> | <u>\$ 94,962</u> |

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**Note 6. Income Taxes**

Income tax (refund) expense amounted to \$(33,871) for 2008 and \$187,833 for 2007 (an effective rate of 0% for 2008 and 30% for 2007). 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:

| | <u>2008</u> | <u>2007</u> |
|---|--------------------|-------------------|
| Computed tax at federal statutory rate | \$ (325,009) | \$ 212,135 |
| Tax rate differential on foreign earnings of Atlantic Components Ltd. (Atlantic), a Hong Kong based company | 133,450 | (119,182) |
| Expenses not deductible for tax | 166,477 | |
| Unrecognized timing difference | 23,480 | |
| Tax under/(over) provision for Atlantic | (97,973) | 61,428 |
| Prior year adjustments | | |
| Net operating loss carry forward | 65,734 | 33,452 |
| Other | | |
| | <u>\$ (33,871)</u> | <u>\$ 187,833</u> |

The income tax provision consists of the following components:

| | <u>2008</u> | <u>2007</u> |
|---------|--------------------|-------------------|
| Federal | \$ | \$ |
| Foreign | (33,871) | 187,833 |
| | <u>\$ (33,871)</u> | <u>\$ 187,833</u> |

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

| | <u>2008</u> | <u>2007</u> |
|----------------------|--------------|--------------|
| Net operating losses | \$ 1,122,726 | \$ 1,056,992 |

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| | | |
|---------------------------|-------------------|-------------------|
| Total deferred tax assets | \$ 1,122,726 | \$ 1,056,992 |
| Less: valuation allowance | (1,122,726) | (1,056,992) |
| | <u> </u> | <u> </u> |
| | \$ | \$ |
| | <u> </u> | <u> </u> |

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. There was no dilutive effect to the weighted average number of shares for the years ended December 31, 2008 and 2007 since there were no outstanding options at December 31, 2008 and 2007.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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 \$27,950 for 2008 and \$28,530 for 2007.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**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, 2008:

| | <u>Related Party</u> | <u>Other</u> | <u>Total</u> |
|--------------------------|----------------------|------------------|------------------|
| Year ending December 31, | | | |
| 2009 | \$ 10,961 | \$ 42,372 | \$ 53,333 |
| 2010 | 5,128 | \$ 19,972 | \$ 25,100 |
| Thereafter | | \$ | \$ |
| Total | \$ 16,089 | \$ 62,344 | \$ 78,433 |

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 2008. Rent expense for the years ended December 31, 2008 and 2007 totaled \$142,985 and \$120,942, 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 Company'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 & 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, 2008 there is a participating forward currency option agreement between the Company and SCB for the Company to buy US\$500,000 from SCB at a contract rate of 7.735 at specified dates up to January 7, 2010. According to the terms of the agreement, the Company will buy USD in triple amounts 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, 2008 was \$36,346.

As at December 31, 2008, there is a target redemption forward currency option agreement between the Company and SCB for the Company to buy US\$750,000 from SCB at a lower strike contract rate of 7.75 and an upper strike contract rate of 7.85 at specified dates up to April 29, 2010. According to the terms of the agreement, the Company will buy USD in triple amounts if the spot rate is less than the lower strike contract rate or greater than the upper strike contract rate at specified dates. The gain on this forward contract during the year ended December 31, 2008 was \$56,433.

As at December 31, 2008, there is a pivot bonus forward currency option agreement between the Company and SCB for the Company to buy US\$1,000,000 from SCB at a lower strike contract rate of 7.73 and an upper strike contract rate 7.749 at specified dates up to July 2, 2009. According to the terms of the agreement, the Company will buy in triple amounts if the spot

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rate is less than the lower strike contract rate. The gain on this forward contract during the year ended December 31, 2008 was \$56,410.

As at December 31, 2008, the Company has holdings of US\$500,000 Commodity Basket Linked Notes which were issued by SCB at specified dates up to February 17, 2009. According to the terms of agreements, the Company will receive interest at a rate equal to 6% if the Basket Return is larger than 0% and 100% redeemed if the Basket Return is less than or equal to 0% on the maturity date. The Company fully redeemed the securities at cost value on the maturity date of February 17, 2009

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 11. Derivative Instruments, Continued

There are three foreign currency exchange agreements matured as of December 31, 2008. These agreements are:

Ratio par forward contract agreement between the Company and DBS Bank for the Company to buy US\$500,000 from DBS Bank at a contract rate of 7.735 at specified dated up to March 18, 2008. According to the terms of the agreement, the Company will buy USD in double amounts 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, 2008 was \$11,538.

Ratio par forward contract agreement between the Company and DBS Bank for the Company to buy US\$500,000 from DBS Bank at a contract rate of 7.74 at specified dated up to May 27, 2008. According to the terms of the agreement, the Company will buy USD in double amounts 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, 2008 was \$17,917.

Ratio par forward contract agreement between the Company and SCB for the Company to buy US\$200,000 from SCB at a contract rate of 7.725 at specified dated up to July 3, 2008. According to the terms of the agreement, the Company will buy USD in double amounts 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, 2008 was \$12,644.

The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheet as of December 31, 2008 were as follows:

| | As of December 31, 2008 | | | | |
|--|----------------------------------|----------------------------|--|---------------------------------|----------------------|
| | 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 | \$ 2,250,000 | | | | |
| Total derivatives not designated as hedging instruments under SFAS 133 | 500,000 | 500,000- | | | |
| Total derivatives | \$ 2,750,000 | 500,000- | | | |

⁽¹⁾ Represents the face amounts of contracts that were outstanding as of December 31, 2008.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007**Note 11. Derivative Instruments, Continued**

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the year ended December 31, 2008 and 2007 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, 2008 | Year ended December 31, 2007 | Year ended December 31, 2008 | Year ended December 31, 2007 | Year ended December 31, 2008 | Year ended December 31, 2007 |
| | | Location | | Location | |
| Cash flow hedges: | | | | | |
| Foreign exchange contracts US\$200,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | \$ 12,644 \$ 20,897 |
| Foreign exchange contracts USD500,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | 36,346 6,449 |
| Foreign exchange contracts US\$500,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | 11,538 37,244 |
| Foreign exchange contracts USD500,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | 17,917 |
| Foreign exchange contracts US\$2,000,000 (CNY/USD) | | Interest and other, net | | Interest and other, net | (30,000) |
| Foreign exchange contracts USD750,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | 56,433 |
| Foreign exchange contracts US\$1,000,000 (HKD/USD) | | Interest and other, net | | Interest and other, net | 56,410 |
| Total cash flow hedges | | | | | \$ 161,288 \$ 64,590 |

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

As of December 31, 2008 and 2007, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling \$39,633 and \$75,998. These advances bear no interest and are payable on demand.

For the years ended December 31, 2008 and 2007, we recorded compensation to Mr. Yang of \$735,026 and \$812,821 respectively, and paid \$735,026 and \$812,821 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2008 and 2007, we paid rent of \$0 and \$17,521 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. The remaining 0.1% of Classic Electronics Ltd. (Classic) is owned by a non-related party. As of December 31, 2008 and 2007, the Company had outstanding accounts receivable from Classic totaling \$1,717,320 and \$1,717,859 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.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 12. Related Party Transactions, Continued

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 1, 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. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$13,077 and \$12,385 to Solution during the year ended December 31, 2008 and 2007.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from 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 September 1, 2008, 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, 2010. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$7,692 and \$7,692 to Systematic Information during the years ended December 31, 2008 and 2007.

During the years ended December 31, 2008 and 2007, we received service charges of \$0 and \$11,538 respectively from Systematic Information. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Systematic Information. The service fee was charged for back office support for 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 \$0 and \$17,521 to Systematic Information during the years ended December 31, 2008 and 2007.

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 is the sole beneficial owner of the equity interests of Aristo Technologies Ltd. (Aristo). During the years ended December 31, 2008 and 2007, we sold products for \$9,076,034 and \$17,165,728 respectively, to Aristo. As of December 31, 2008 and 2007, outstanding accounts receivable totaled \$6,695,409 and \$6,237,905 respectively. We have not experienced any bad debt from this customer in the past.

During the years ended December 31, 2008 and 2007, we purchased inventories of \$7,393,957 and \$3,633,424 respectively from Aristo. As of December 31, 2008 and 2007, there were no outstanding accounts payable to or from 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, 2008 and 2007, we received management fees of \$0 and \$5,769 respectively from Global. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Global. The management fees were charged for back office support for Global.

Transactions with Systematic Semiconductor Ltd.

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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, 2008 and 2007, we received a management fee of \$15,384 and \$16,026 respectively from Systematic. As of December 31, 2008 and 2007, there were no outstanding accounts receivables from Systematic. The management fee was charged for back office support for Systematic.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND
THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 12. Related Party Transactions, Continued**Transactions with Aristo Components Ltd.**

Mr. Ben Wong, one of our directors, is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2008 and 2007, we received a management fee of \$8,077 and \$0 respectively from Aristo Comp. As of December 31, 2008 and 2007, there were no outstanding accounts receivable from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

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.

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 |
|------------------------------|------------|------------|-----------|-----------|-----------|
| 2008 | | | | | |
| Total net sales | \$ 206,083 | \$ 56,610 | \$ 51,318 | \$ 45,246 | \$ 52,909 |
| Gross profit | \$ 4,262 | \$ 656 | \$ 1,691 | \$ 1,395 | \$ 520 |
| Net income (loss) | \$ (922) | \$ (1,247) | \$ 532 | \$ 395 | \$ (602) |
| Net income (loss) per share: | | | | | |
| basic and diluted | \$ (0.03) | \$ (0.04) | \$ 0.02 | \$ 0.01 | \$ (0.02) |
| 2007 | | | | | |
| 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 |

Note 14. Subsequent Events (Unaudited):

After year ended December 31, 2008, two banks canceled the banking facilities granted to the Company and restricted bank deposits were released. One bank reduced the amount of facilities granted to the Company.

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

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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.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 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, 2007 | \$ | \$ | \$ | \$ |
| Year ended December 31, 2008 | \$ | \$ | \$ | \$ |
| Inventory Obsolescence Reserve: | | | | |
| Year ended December 31, 2007 | \$ 241,026 | \$ 323,077 | \$ | \$ 564,103 |
| Year ended December 31, 2008 | \$ 564,103 | \$ | \$ 190,000 | \$ 374,103 |
| Valuation Allowance for Deferred Tax Assets: | | | | |
| Year ended December 31, 2007 | \$ 987,840 | \$ 69,152 | \$ | \$ 1,056,992 |
| Year ended December 31, 2008 | \$ 1,056,992 | \$ 65,734 | \$ | \$ 1,122,726 |

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