

ACL SEMICONDUCTORS INC
Form 10-K
April 16, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(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, 2011**

or

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

For the transition period from _____ to _____

Commission file number: 000-50140

ACL Semiconductors Inc.

(Exact name of Registrant as specified in its charter)

Delaware

16-1642709

State or other jurisdiction of incorporation or organization

(I.R.S. Employer Identification Number)

Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number including area code : **011-852-3666-9939**

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

Title of each class
NONE

Name of each exchange on which registered
N/A

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

Common Stock, \$0.001 par value

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(Title of class)

Indicate by check mark if 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, a non-accelerated filer, or a 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
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
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, 2011 was approximately \$2,609,270.04 based upon the closing price of \$0.39 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 March 30, 2012 was 29,025,436.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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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.

In September 2003, the Company entered into a Share Exchange and Reorganization Agreement with Atlantic Components Limited, a Hong Kong corporation (Atlantic), and Mr. Chung-Lun Yang, the sole beneficial stockholder of Atlantic (Mr. Yang), and as a result Atlantic became a wholly-owned subsidiary of the Company. In December 2003, the Company changed its name from Print Data Corp. to ACL Semiconductors Inc.

On March 23, 2010, the Company concluded that Aristo Technologies Limited (Aristo), a related company solely owned by Mr. Yang, is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with the Company beginning with fiscal year 2007 under the guidance applicable to variable interest entities.

On December 14, 2010, the Company set up a wholly-owned subsidiary, ACL International Holdings Limited (ACL Holdings) in Hong Kong. On December 17, 2010, the Company restructured the group; the Company's wholly owned subsidiary, Atlantic, was transferred to and became a wholly-owned subsidiary of ACL Holdings.

On March 9, 2012, ACL Holdings entered into an agreement with Tomen Devices Corporation (Tomen) to create a joint venture, ATMD (Hong Kong) Limited (ATMD), which will become effective on April 1 2012. ACL Holdings and Tomen are expected to own 30% and 70%, respectively, of the equity interest of ATMD. Upon the consummation of this transaction, ATMD will enter into a distribution agreement with Samsung Electronics Hong Kong Co., Ltd. (Samsung) and start to sell and distribute Samsung's products to the Greater China market, as consented to and approved by Samsung. Atlantic is expected to discontinue its contractual relationship with Samsung under its distribution agreement. Mr. Yang, the Company's Chief Executive Officer is expected to be the Chief Executive Officer of ATMD.

The following is a summary of the material terms of the Agreement, which will be filed with the Company's quarterly report on Form 10-Q for the period ending March 31, 2012.

Capital Contribution

Pursuant to the Agreement, ACL Holdings and Tomen will own 30% and 70%, respectively, of the equity interest of ATMD. The authorized share capital of ATMD is US\$10 million, divided into 1 million ordinary shares of US\$1.0 per share. 3 million and 7 million shares will be issued to ACL Holdings and Tomen, respectively, upon payments of capital contributions of US\$3 million and US\$7 million by ACL Holdings and Tomen, respectively.

Business of ATMD

ATMD will be engaged in the business of sales and distribution in China, Hong Kong and Macau (collectively, the Territory) of certain semiconductors and electronics parts manufactured by Samsung under a certain distribution agreement with SECC. To facilitate its business, ATMD will form a wholly owned subsidiary, to be incorporated in Shenzhen, China (the PRC Subsidiary).

Obligations of Both Parties In Connection With the ATMD's Business

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In addition to cash contributions, ACL Holding agreed to cause Atlantic to integrate its entire business relating to purchasing semiconductors and electronic parts from SECC and selling them to customers in the Territory as a SECC distributor and to transfer to ATMD its entire clientele (starting from April 1, 2012 (the Effective Date)), and Tomen agreed to transfer some or all of its non-Japanese clientele to ATMD starting from the Effective Date. Notwithstanding the foregoing, any outstanding customer agreement existing as of the Effective Date to which either Tomen or Atlantic is bound will continue to be performed by such party. Failure in fulfilling the foregoing respective agreements will give ACL Holdings or Tomen a right to terminate the Agreement in accordance with the terms thereof. Both parties agreed not to be engaged in any business competing with ATMD's business as set forth in the Agreement.

Pursuant to the Agreement, Tomen is responsible for securing financing for ATMD when necessary and ACL Holdings is responsible for promoting the sales of Samsung products and developing new customers in the Territory, on a best effort basis. No party is entitled to any fee or compensation with respect to its performance of the foregoing obligations under the Agreement.

Corporate Governance of ATMD

The business of ATMD will be managed by the board of directors, which may consist of up to 7 directors, among which 5 directors will be appointed by Tomen and 2 directors will be appointed by ACL Holdings.

ATMD will have two executive officers, namely, the CEO and CFO. ACL Holding is entitled to appoint one director to be the CEO and Tomen is entitled to appoint one director to be the CFO of ATMD.

Transfer of Shares of ATMD

Each party has the right of first refusal in the event the other party proposed to sell its ATMD shares pursuant to the terms of the Agreement.

Termination of the Agreement

The Agreement contains ordinary termination causes regarding dissolution or bankruptcy of ACL Holdings, Tomen, ATMD or the PRC Subsidiary. Furthermore, the Agreement provides that either party can terminate the Agreement if (i) the Samsung products ceased to be available to ATMD or (ii) the profitability of ATMD and its PRC Subsidiary is not satisfactory in the opinion of either party, provided a party may not terminate the Agreement based on profitability before the third anniversary of the Agreement.

The establishment of ATMD is expected to solidify ACL's position as a leading total memory solution provider and marks a key strategic milestone for the company as it broadens its product range to become a one-stop distributor of electronic components. ATMD is expected to offer a broad range of industry-leading Samsung semiconductor products, and additional components from SAMCO (such as wifi and camera modules) and SMD (smartphone panels). ACL's net margin is expected to benefit from the inclusion of higher margin components in ATMD's product portfolio. Combining ACL's geographic reach with Tomen's product range and working capital, ATMD's revenues are expected to contribute positively to ACL's revenue growth.

The Company, in addition to its substantial involvement in the management of ATMD, will continue its business operation as a distributor of memory products in the Greater China region and seek other business opportunities in such field.

Business

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

Since 1993, Atlantic has diversified its product portfolio to include most of Samsung's memory products marketed under the Samsung brand name which comprise Dynamic Random Access Memory (DRAM), Double Data Rate Random Access Memory (DDR RAM), Graphic Random Access Memory (Graphic RAM), and NAND Flash. Atlantic believes it is one of the largest distributors of Samsung memory products in Hong Kong and Southern China.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related

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products. In addition to Samsung-branded products, Aristo sells Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond branded products. Aristo also provides value-added services to its products and resells it to its customers.

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The Company's business objective is to build the best memory solutions platform for electronics manufacturers in the region. The Company also aims to: (i) provide current market intelligence to Samsung regarding the demand for memory products in the Hong Kong and Southern China markets and (ii) 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 to provide Samsung with up-to-date market information collected from retail channels and corporate users to assist Samsung in planning 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 access to a secure stable supply of Samsung's memory products at competitive prices. The Company is a non-exclusive distributor of Samsung products, and enjoys a guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in the form of sales rebates payable by Samsung.

Approximately 80% of the Company's revenues are derived from sales of Samsung memory products. As of December 31, 2011, pricing for the Samsung memory products ranged from approximately \$0.50 to \$5.00 per product depending on the product specifications.

The Distribution Agreement has a one-year term. The Distribution Agreement has been renewed more than ten times, most recently on March 1, 2011 and has expired on February 29, 2012. In anticipation of the establishment of ATMD, Samsung has confirmed that the Distribution Agreement with the Company will be extended for a period of 3 to 6 months whilst a similar arrangement will be entered into between Samsung and ATMD.

Upon the establishment of ATMD, the Company, through its management and security ownership of ATMD, is expected to carry on its services to and business relationship with Samsung. The Company is expected to be able to move horizontally within the Asian electronic components markets and develop vertically within these markets through acquisition of appropriate target companies. The Company intends to leverage its established network of customers to tap into the rapid growth in three key industries in China, namely, computers, consumer electronics; and communication devices.

Products

The primary products we distribute and sell are described as follows:

Synchronous Dynamic Random Access Memory (SDRAMs), or mobile SDRAM, are the most widely used semiconductor memory component in computer peripherals such as Hard Disk Drives (HDD), Digital Still Camera (DSC), Modems, ADSL Applications, DVD player, Set-top Box (STB), Digital TV, High Definition TV (HDTV) and Portable Multimedia Players (PMP).

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 is predominantly used in mobile phones and tablets, it is commonly used in multi-media digital storage applications for products such as MP3 players, DSC, Digital Voice Recorders, USB Disks, Flash Cards, etc. In addition, the Company expects that mobile handsets, particularly smartphones, and tablets to create impressive NAND Flash revenue growth in 2012. Samsung is a major supplier in the world of Flash products. Flash Cards such as micro SD cards, SD cards, and CF cards are widely used for digital cameras, mobile phones, portable game consoles, MP3 players, etc. In the third quarter of 2011, Samsung's NAND Flash revenue was approximately US\$2,003 million, representing 37.5% of NAND Flash's market share.

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

LCD panels are a major component in most consumer electronics such as LCD TVs, tablets, smartphones, notebooks, digital phone frames, portable game consoles, etc.

Industry Background

Memory products are integral to a wide variety of consumer and industrial applications, including: personal computer systems, workstations and servers, and handheld devices such as notebooks, netbooks, tablets, smartphones, e-Readers, etc. A market trend of increasingly high-throughput applications (including, networking, graphics, multimedia etc) is creating demand for high performance memory products. At present, NAND Flash, DDR2 and SDRAM are the dominant memory products used with high-throughput applications and

Samsung is the world's largest developer and manufacturer of these memory products.

Customers

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As of December 31, 2011, the Company had approximately 150 customers in Hong Kong and Southern China, the majority of whom are memory product traders and PC/Servers OEM manufacturers. Other than the Company's most significant customer who accounted for 71% of the Company's net sales for the year ended December 31, 2011, no other customer accounted for more than 25% of the Company's net sales for 2011 and 2010. 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. With the establishment of ATMD, the Company's existing customer base is expected to be shared with ATMD. The Company will contribute the majority of ATMD's customers. The Company's customer base will increase from Tomen's contribution to ATMD's customers and from organic growth.

Sales and Marketing

As of December 31, 2011, the Company employed a total of 11 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 six of them work out of the Company's China offices. 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.

Market Research

The Company invests significant resources in market research 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 product allocation functions and thus maintains a close business relationship with Samsung.

Suppliers

As of December 31, 2011, the majority of the Company's distributed products are Samsung memory products. Although there is no written long-term distribution agreement in place with Samsung, since 1993, our procurement operations have been supported by Samsung to ensure that there are enough supplies of memory products according to our monthly sales quota. Samsung allocates quantities of its memory products each year based upon anticipated demand for such products by the customers of Samsung's various distributors in Hong Kong and the PRC. The distributors that are supported by Samsung provide Samsung with their own annual estimates of product demand. In the event of an unexpected strong demand in the market, in which we exceed our monthly sales quota, there is no assurance that Samsung will be able to supply sufficient memory products to us or other non-exclusive distributors due to Samsung's global allocation policy. In the event of such a supply shortage, we anticipate that the market prices of memory products will rise and offset any loss of income attributable to our inability to fulfill all of our orders.

Atlantic primarily 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. With the establishment of ATMD, Samsung is expected to continue its business relationship with the Company through ATMD, and Atlantic is expected to discontinue as Samsung's distributor upon expiration of its distribution agreement with Samsung in late 2012. Subject to the terms of the joint venture agreement, when Atlantic's agreement with Samsung expires the Company will evaluate engaging other suppliers.

In addition to Samsung-branded products, Aristo sells brands such as Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo is not an authorized distributor of any of these brands but instead is a trader of a broad range of products and brands in the computer accessories market.

In addition to Samsung-branded products ATMD will sell brands such as SAMCO and SMD.

Competition

The memory products industry in the Hong Kong and Southern China markets is very competitive. However, as the world's largest memory products manufacturer, 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 highly competitive position compared to other US, European, Japanese and Taiwanese memory products manufacturers and distributors.

Samsung's principal competitors for memory product in the Hong Kong and Southern China markets include Toshiba, 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, at 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.

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The Company believes that ATMD, with an expanded product portfolio, will have competitive advantages over its competitors in Greater China region.

Regulation

As of December 31, 2011, the Company's business operations were not subject to the regulations of any jurisdiction other than Hong Kong SAR and the PRC. Although the Company is not formally authorized to do business in the PRC, 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 PRC authorities with respect to the Company's pursuit of business growth and opportunities in China. The Company's joint venture, ATMD, will conduct transactions in Hong Kong SAR.

Employees

As of December 31, 2011, the Company had 42 employees. Of the 42 employees, 11 employees are in sales and marketing, 18 employees are in administration, 5 employees are in engineering, 8 employees are in customer service and liaison. None of the Company employees are represented by labor unions. All of the Company's employees are full time. Pursuant to the joint venture agreement, the Company is currently in the process of integrating Altantic's business with ATMD and eventually will move all of Atlantic's employees in the sales, marketing and engineering departments to ATMD.

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.

The restatement of our financial statements may result in litigation or government enforcement actions. Any such action would likely harm our business, prospects, financial condition and results of operations.

In March 2010, our management concluded that Aristo Technologies Limited (Aristo), a related party, is a variable interest entity under FASB ASC 810-10-25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and restated our previously filed annual and interim financial statements in amended Form 10-Ks for years ended 2007 and 2008 to correct the errors related to accounting for variable interest entities. The restatement of our financial statements may expose us to risks associated with litigation, regulatory proceedings and government enforcement actions. In addition, securities class action litigation has often been brought against companies who have been unable to provide current public information or who have restated previously filed financial statements. Any of these actions could result in substantial costs, divert management's attention and resources, and harm our business, prospects, financial condition and results of operations.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act of 2002 may result in actions filed against us by regulatory agencies or in a reduction in the price of our common stock.

We are required to maintain effective internal control over financial reporting under the Sarbanes Oxley Act of 2002 and related regulations. Any material weakness in our internal control over financial reporting that needs to be addressed, or disclosure of a material weakness in management's assessment of internal control over financial reporting, may reduce the price of our common shares because investors may lose confidence in our financial reporting. Our failure to maintain effective internal control over financial reporting could also lead to actions being filed against us by regulatory agencies. We identified material weaknesses in internal control over financial reporting as more fully discussed in Controls and Procedures at Item 9A of this Annual Report. Currently, we have plans for certain remediation actions, but they will take time to implement because of their cost. There can be no assurance when remediation will be complete, if at all. Therefore, future reports may have statements indicating that our controls and procedures are not effective. We cannot assure you that even if we remediate our internal control over financial reporting relating to the identified material weaknesses that it will establish the effectiveness of our internal control over financial reporting or that we will not be subject to material weaknesses in the future.

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. Upon the establishment of ATMD, we will be continuing our business relationship with Samsung through ATMD. Our relationship with Samsung is primarily maintained through our Chief Executive Officer and Chairman Mr. Yang, 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 Samsung has renewed our distribution agreement in the past, no assurances can be given that Samsung will definitely renew the distribution Agreement with us (or, subsequent to the establishment of the joint-venture with Tomen, ATMD). In addition, even if such agreement is renewed, no assurance can be given that the terms will be 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 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

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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, as a result, our 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, netbooks, servers, workstations, handheld devices, and communications, industrial and other applications that demand specific memory solutions. Samsung currently offers customers a variety of memory products including DDR, Graphic RAM and Flash.

Samsung needs to dedicate significant resources to product design and development to respond to customer demand for the continued diversification of memory products. If Samsung is unable or unwilling to invest sufficient resources to meet the diverse memory needs of customers, we, as a major Samsung memory products 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, the results of our 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, the results of our 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. Additionally, any future health-related disruptions at Samsung's manufacturers or other key suppliers could affect its ability to supply us with products in a timely manner, which would harm our results of operations.

We are heavily dependent on our largest supplier, Samsung, and factors affecting Samsung could have a great impact on our business operations.

Samsung is one of our largest suppliers of memory products and therefore any factors that impact Samsung could have a great impact on our business operations. For example, Samsung relies heavily on silicon wafer producers to produce the raw material, silicon wafers, for its products that we distribute, therefore, earthquakes, typhoons or other natural disasters in areas where silicon wafer are produced would impact Samsung's supply of silicon wafers, which in turn, would negatively impact our business, financial condition, and operational results. For example, the recent earthquake and tsunami in Japan have adversely impacted Samsung's suppliers located in Japan and its ability to source parts from companies located in Japan.

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. The majority of our revenue is generated from the networking, high-end computing and computer peripherals segments of the electronics industry, which are 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

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to effectively market, manufacture or ship our products, our results of operations, cash flows and financial condition could be adversely affected. There is a risk that the events in Japan could negatively affected semiconductor markets, and may continue to have severe and unpredictable effects on the price of certain raw materials in the future. 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

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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 76.4% 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.

If ATMD is not successful the Company's financial conditions will be materially adversely affected.

On March 9, 2012, ACL Holdings entered into an agreement with Tomen Devices Corporation (Tomen) to create a joint venture (the Joint Venture Agreement), ATMD, which will become effective on April 1 2012. ACL Holdings and Tomen are expected to own 30% and 70%, respectively, of the equity interest of ATMD.

Upon the consummation of this transaction, ATMD will enter into a distribution agreement with Samsung and start to sell and distribute Samsung's products to the Greater China market, as consented to and approved by Samsung. Atlantic will discontinue its contractual relationship with Samsung under its distribution agreement. Since the Joint Venture Agreement contains non-compete provisions that prohibit ACL Holdings from working with ATMD's suppliers, ACL will be limited in future business as a distributor of semiconductor products. In addition, pursuant to the Joint Venture Agreement, Atlantic will transfer to ATMD its existing customer base and employees in the sales and engineering departments, which for an indefinite period of time will materially affect Atlantic's ability to generate significant revenues other than from ATMD. The Company may consider engaging suppliers that do not have a business relationship with ATMD, as well as exploring other business opportunities such as acquiring suitable target companies to broaden its business portfolio. However, there is no assurance that the Company may succeed in doing so or achieving and maintaining its profitability.

As Tomen will own a majority interest in ATMD and exercises voting control over most matters put to a vote of stockholders, the votes cast by Tomen may not be in the best interests for ACL's stockholders. Tomen also has the right to appoint 5 directors out of a total number of 7 board members of ATMD and thereby control ATMD. Even though Mr. Yang, the Company's Chief Executive Officer will be the initial Chief Executive Officer of ATMD, there is no assurance that the board of the ATMD will not replace him or be able to operate ATMD profitably. In the event we discontinue our involvement in the management of ATMD for any reason, we cannot provide assurance that new management will possess the skills, qualifications or abilities necessary to profitably operate such business.

The joint venture with Tomen is a new business model that we adopted and there is no assurance such model will be successful in the future. The joint venture may be terminated by either shareholder without other party's prior consent if (i) the Samsung products ceased to be available to ATMD or (ii) the profitability of ATMD and its PRC Subsidiary is not satisfactory in the opinion of either party, provided a party may not terminate the Agreement based on profitability before the third anniversary of the Agreement. In the event the joint venture is terminated for any reason, there is no assurance that we may obtain full recovery of our contribution and investment, nor is there any assurance that the Company may continue to work with Samsung and resume as its authorized distributor. In the event the joint venture is terminated and we cannot again become a distributor of Samsung, the Company's financial conditions and operations will be materially affected.

The Joint Venture Agreement provides that each party to the agreement will bear the excess liabilities in proportion to their percentage interests in the event the joint venture does not have sufficient assets to repay its debts upon liquidation. Since Tomen controls the board of ATMD and has broad powers to incur debts, if ATMD does not have sufficient assets to cover such debts upon liquidation, the Company will be responsible for part of the debts even though it did not control management of ATMD. The assumption of such liabilities may also have negative impact on the Company's financial conditions.

Lastly, pursuant to the Joint Venture Agreement, the Board of ATMD has the power to prohibit any transfer of the shares. As the Board is controlled by Tomen, Tomen may, in its sole discretion, deny any sale of ATMD shares held by ACL Holdings.

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

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There has been significant volatility in the market prices of publicly traded shares in computer related companies, including ours. From September 30, 2003, the effective date of the reverse-acquisition of Atlantic, to December 31, 2011, the closing price of our Common Stock fluctuated from a per share high of \$3.00 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, 2011, there were 29,025,436 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 office occupies approximately 7,643 square feet and is located at Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for five years, expiring November 30, 2014 with monthly lease payments of HK\$90,000 (approximately US\$11,538).

We own an office unit of approximately 4,989 square feet, which is located at B24-B27, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong, and which was acquired from Classic Electronic Limited, a non-related party, on July 21, 2006.

We lease a warehouse unit of approximately 1,070 square feet, which is located at B11, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years expiring on June 30, 2013, with monthly rentals of HK\$11,500 (approximately US\$1,474).

We lease a warehouse unit of approximately 873 square feet, which is located at B13, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years, expiring May 10, 2012 with monthly lease payments of HK\$8,000 (approximately US\$1,026).

We lease an office unit of approximately 2,682.9 square feet, which is located at Room 2208, 22/F., Building A, United Plaza, No.5022 Binhe Road, Futian Centre, Shenzhen, China. The lease is for three years expiring on February 23, 2013 with monthly lease payments of RMB20,122 (approximately US\$3,417).

We own an investment property of approximately 3,000 square feet, which is located at No. 76, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong. The current lease is for two years expiring on December 31, 2012 with monthly lease income of HK\$64,000 (approximately US\$8,205).

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.

Aristo owns an investment property of approximately 2,670 square feet, which is located at House 19, Casas Domingo, 8 Kam Ka Street, Sheung Shui, New Territories, Hong Kong with 2 parking lots namely No. 39 and No. 40 of the estate. The current lease is for three years expiring on March 14, 2014 with monthly lease income of HK\$23,500 (approximately US\$3,013).

Aristo owns an investment property of approximately 2,521 square feet, which is located at House 56, Casa Marina II, 1 Lo Ping Road, 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. Mine Safety Disclosure

Not Applicable

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

| | High | Low |
|---|---------|---------|
| Fiscal Year ended December 31, 2011: | | |
| Quarter ended December 31, 2011 | \$ 0.51 | \$ 0.07 |
| Quarter ended September 30, 2011 | \$ 0.39 | \$ 0.23 |
| Quarter ended June 30, 2011 | \$ 0.46 | \$ 0.32 |
| Quarter ended March 31, 2011 | \$ 0.60 | \$ 0.28 |
| Fiscal Year ended December 31, 2010: | | |
| Quarter ended December 31, 2010 | \$ 0.53 | \$ 0.25 |
| Quarter ended September 30, 2010 | \$ 0.70 | \$ 0.39 |
| Quarter ended June 30, 2010 | \$ 0.60 | \$ 0.45 |
| Quarter ended March 31, 2010 | \$ 0.70 | \$ 0.41 |

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 March 29, 2012, the last reported sale price of our Common Stock, as reported by Yahoo Finance, was \$0.24 per share.

As of March 29, 2012, there were approximately 450 holders of record of our Common Stock.

Dividend Policy

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

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

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the "Plan") and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. The Plan permits the Company to grant both incentive stock options ("Incentive Stock Options" or "ISOs") within the meaning of Section 422 of the Internal Revenue Code (the "Code"), and other options which do not qualify as Incentive Stock Options (the "Non-Qualified Options") and stock awards.

Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 31, 2016, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board of 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 re-grant 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.

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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, 2011, 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 distributing memory products under the Samsung brand name, specifically DRAM, Graphic RAM and Flash for the Hong Kong and Southern China markets.

As of December 31, 2011, we had approximately 150 customers in Hong Kong and Southern China.

Depending on the product specifications, pricing for the Samsung memory products range from approximately \$0.50 to \$5.00. 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, 2011 and 2010, the largest 5 customers accounted for 86% and 73% of our net sales, respectively. As of December 31, 2011, we had net current liabilities of \$10,383,415 and accumulated earnings of \$1,180,299. We generated net sales of \$368,949,999 for the year ended December 31, 2011 and recorded a net loss of \$1,707,147. In addition, during the year ended December 31, 2011, net cash used for operating activities amounted to \$9,945,170, net cash provided by investing activities amounted to \$6,233,947, net cash provided by financing activities amounted to \$2,804,626.

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 i) Provide current market intelligence to Samsung regarding the demand for memory products in the Hong Kong and Southern China markets and ii) 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 up-to-date market information collected from retail channels and corporate users to assist Samsung in planning their production and allocation schedule for the following six months. 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 guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in form of sales rebate payable by Samsung.

Net sales

Net sales are recognized upon the transfer of legal title of the electronic components to the customers. The quantity of memory products the Company sells fluctuates with changes in demand from its customers. The suggested prices set by our suppliers that we charged our customers are subject to change by us based on prevailing economic conditions and their impact on the market.

Net sales for the fiscal year 2011 were \$368,949,999, down \$39,812,129 or 9.7% from \$408,762,128 in the 2010 fiscal year. This reduction is largely a reflection of the weak and volatile global economic conditions that have been present this year. Many electronics industries were also affected by supply chain difficulties caused by the March 11th Japan Earthquake, this created additional volatility and weakness in the markets for semiconductors. To reduce risks associated with holding price sensitive inventories in a volatile market, the Company adopted a quick sale strategy (mainly through promotional price reduction) to maximize its products' turnover. The deteriorated market conditions during the last year caused a decrease in the average selling price of semiconductors, which further affected the Company's revenues. The Company's gross profit for the fiscal year 2011 was \$6,174,759, a decrease of \$1,214,563 or 16.4%, from \$7,389,322 in the fiscal year 2010. Gross profit margin for fiscal year 2011 eased to 1.67% from 1.81% in fiscal year 2010. These results are largely due to reduced average selling prices of semiconductors as a result of weakened global economic conditions, DRAM in particular has been affected by declining prices (down approximately 27%).

Operating expenses increased from \$4,868,176 in 2010 to \$7,338,508 in 2011, this was largely due to increased general and administrative expenses, such as entertainment costs and allowance for doubtful accounts. The Company expects to keep operating expenses for 2012 at approximately the same level as 2011. Income before tax in the fiscal year 2011 was down to loss \$1,509,725 from \$2,322,676 in the fiscal year 2010 due to the Company's reduced gross profits combined with an increase in general and administrative expenses.

The Company recorded a net loss of \$1,707,147 for the fiscal year 2011, down \$3,640,408 or 188.3%, from \$1,933,261 in the fiscal year 2010. This result was due to the allowance in the doubtful accounts and the reflection of current global economic conditions. On average, the Company sold its products at a reduced selling price to encourage the turnover of the Company's price sensitive products in response to the deteriorated market conditions, and it caused a decrease in our gross profit margin and net income.

The Company anticipates demand driven revenue growth for NAND Flash in 2012, due to continued expansion in the smartphone and tablet markets. DRAM revenue is expected to remain influenced by global economic conditions. First quarter results are expected to be down due to an early Chinese New Year.

In 2012 the Company will be entering into a joint venture with Tomen Devices Corporation, another major semiconductor distributor (please see Item 1 Business Section, Note 16. Subsequent Events and the Current Report on Form 8-K filed with the Commission on March 29, 2012). We believe this joint venture will provide several strategic advantages and lead to significant sustained revenue growth for the Company.

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. Nevertheless, our procurement operations are supported by Samsung, although there is no written long-term supply agreement in place between our Company and Samsung. Our cost of goods, as a percentage of total revenues, amounted to approximately 98.3% for the year ended December 31, 2011 and approximately 98.2% for the year ended December 31, 2010.

Operating Expenses

Our operating expenses for the years ended December 31, 2011 and 2010 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 level in 2012. 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 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

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revenue recognition, allowance for doubtful accounts, and stock-based compensation. 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 ASC 605 Revenue Recognition . Under ASC 605, 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.

Impairment of long-lived assets

We account for impairment of property, plant and equipment in accordance with FASB ASC 360. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. During the reporting years, there was no impairment loss incurred. Competitive pricing pressure and changes in interest rates, could materially and adversely affect our estimates of future net cash flows to be generated by our long-lived assets.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. In addition, we write down unproven, excess and obsolete inventories to net realizable value. This policy requires us to make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecast demand for our product to value our inventory. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly. Since Aristo supplies different generations of computer related products, older generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old generation products carrying on hand for ten years will have no re-sell value. Therefore, these inventories on hand over ten years will be written off by Aristo immediately.

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, 2011 and 2010 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\$) | |
|--------------------------------------|-----------------------------------|----------------|
| | 2011 | 2010 |
| Net sales | \$ 368,949,999 | \$ 408,762,128 |
| Cost of sales | (362,775,240) | (401,372,806) |
| Gross profit | 6,174,759 | 7,389,322 |
| Operating expenses: | | |
| Sales and marketing | (116,459) | (113,772) |
| General and administrative | (7,338,508) | (4,754,404) |
| Total operating expenses | (7,454,967) | (4,868,176) |
| Income (loss) from operations | (280,208) | 2,521,146 |
| Other income (expenses) | (229,517) | (198,470) |
| Income before income taxes provision | (1,509,725) | 2,322,676 |
| Income taxes provision | (197,422) | (389,415) |
| Net income | \$ (1,707,147) | \$ 1,933,261 |

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Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Net Sales

| Year Ended December 31, 2011 | 2010 | % Change |
|---------------------------------|------|-------------|
|---------------------------------|------|-------------|

\$ 368,949,999 \$ 408,762,128 -9.7%

Sales decreased by \$39,812,129 or 9.7% from \$408,762,128 for the year ended December 31, 2010 to \$368,949,999 for the year ended December 31, 2011. This decrease was largely due to weaker conditions in the global economy and electronics industries which led to lower average selling prices of semiconductors. On average, the Company sold its products at a reduced selling price to encourage the turnover of the Company's price sensitive products in response to the deteriorated market conditions during last fiscal year, and it caused a decrease in our gross profit margin and net income.

Cost of Sales

| Year Ended December 31, 2011 | 2010 | % Change |
|---------------------------------|------|-------------|
|---------------------------------|------|-------------|

\$ 362,775,240 \$ 401,372,806 -9.6%

Cost of sales decreased by \$38,597,566 or 9.6%, from \$401,372,806 for the year ended December 31, 2010 to \$362,775,240 for the year ended December 31, 2011. The decrease was mainly due to a decrease in sales volume.

Gross Profit

| Year Ended December 31, 2011 | 2010 | % Change |
|---------------------------------|------|----------|
|---------------------------------|------|----------|

\$ 6,174,759 \$ 7,389,322 -16.4%

Gross profit decreased by \$1,214,563 or 16.4% from \$7,389,322 for the year ended December 31, 2010 to \$6,174,759 for the year ended December 31, 2011. The gross profit percentage decreased to 1.7% of revenue for the year ended December 31, 2011 compared to 1.8% of revenue for the year ended December 31, 2010. The decrease in gross profit was due to reduced Net Sales and reduced average selling prices.

Sales and Marketing Expenses

| Year Ended December 31, 2011 | 2010 | % Change |
|---------------------------------|------|----------|
|---------------------------------|------|----------|

\$ 116,459 \$ 113,772 2.4%

Sales and marketing expenses increased by \$2,687, or 2.4%, from \$113,772 for the year ended December 31, 2010 to \$116,459 for the year ended December 31, 2011. This increase was mainly due to an increase in transportation expenses during the year 2011. We expect the sales and marketing expenses for the year ended December 31, 2012 to remain at approximately the same level as the year ended December 31, 2011.

General and Administrative Expenses

Year Ended December 31,

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| <u>2011</u> | <u>2010</u> | <u>% Change</u> |
|--------------|--------------|-----------------|
| \$ 7,338,508 | \$ 4,754,404 | 54.4% |

General and administrative expenses increased by \$2,584,104 or 54.4% from \$4,754,404 for the year ended December 31, 2010 to \$7,338,508 for the year ended December 31, 2011. This increase was primarily attributable to an increase in directors' remuneration, although there were also increases in entertainment and depreciation expenses and allowances for doubtful debts during the year 2011. We intend to continue to keep general and administrative expenses for the year ended December 31, 2012 at approximately the same level as the year ended December 31, 2011.

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Income (loss) from Operations

| Year Ended December 31, | Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|-------------------------|
| 2011 | 2010 | % Change |
| | | |

| | | |
|----------------|--------------|---------|
| \$ (1,280,208) | \$ 2,521,146 | -150.8% |
|----------------|--------------|---------|

Loss from operations was \$1,280,208 for the year ended December 31, 2011 compared to income \$2,521,146 for the year ended December 31, 2010, a decrease of \$3,801,354. This decrease was mainly due to a decrease in gross profit and an increase in general and administrative expenses.

Interest Expense

| Year Ended December 31, | Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|-------------------------|
| 2011 | 2010 | % Change |
| | | |

| | | |
|------------|------------|-------|
| \$ 555,306 | \$ 416,846 | 33.2% |
|------------|------------|-------|

Interest expense increased \$138,460 or 33.2%, from interest expense of \$416,846 in the year ended December 31, 2010, to \$555,306 in the year ended December 31, 2011. This increase was mainly due to increased interest payments during the year 2011. We expect to keep interest expenses for the year ended December 31, 2012 at approximately the same level as in the year ended December 31, 2011.

Net Income on Cash Flow Hedge

| Year Ended December 31, | Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|-------------------------|
| 2011 | 2010 | % Change |
| | | |

| | | |
|----|-----------|---------|
| \$ | \$ 15,410 | -100.0% |
|----|-----------|---------|

Net income on cash flow hedge decreased by \$15,410 or 100%, as compared to the year ended December 31, 2010. This decrease was due to all of the Company's currency hedging contracts reaching maturity in the first quarter of 2010.

Interest Income

| Year Ended December 31, | Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|-------------------------|
| 2011 | 2010 | % Change |
| | | |

| | | |
|----------|----------|-------|
| \$ 1,908 | \$ 1,280 | 49.1% |
|----------|----------|-------|

Interest income increased by \$628 or 49.1% from \$1,280 in the year ended December 31, 2010 to \$1,908 in the year ended December 31, 2011. This increase was due to an increase in the Company's average bank balance when compared to the year 2010.

Income Tax Provision

| Year Ended December 31, | Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|-------------------------|
| 2011 | 2010 | % Change |
| | | |

| | | |
|------------|------------|--------|
| \$ 197,422 | \$ 389,415 | -49.3% |
|------------|------------|--------|

Income tax provision decreased by \$191,993 or 49.3% from \$389,415 for the year ended December 31, 2010 to \$197,422 for the year ended December 31, 2011. This decrease was due to a decrease in the estimated Hong Kong taxes payable by Atlantic. The effective income tax rate is 15.4% for 2011 as compared to 17% for 2010.

Net (loss) Income

| Year Ended December 31, 2011 | 2010 | % Change |
|---------------------------------|------|----------|
|---------------------------------|------|----------|

| | | |
|----------------|--------------|---------|
| \$ (1,707,147) | \$ 1,933,261 | -188.3% |
|----------------|--------------|---------|

Our net (loss) income decreased by \$3,640,408 from income of \$1,933,261 for the year ended December 31, 2010 compared to loss of \$1,707,147 for the year ended December 31, 2011. This decrease was mainly due to a decrease in gross profit and an increase in general and administrative expenses.

Liquidity and capital resources

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

As of December 31, 2011, the Company had revolving lines of credit and loan facilities in the aggregate amount of \$19,035,394, of which \$1,431,992 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures regarding our outstanding credit facilities are set forth in Notes 7 and 8 of the Notes to Consolidated Financial Statements, 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 prior consent of the relevant lending institution to make advances at the time of the requested advance and each facility (other than with respect to certain long term mortgage loans) is payable within 90 days of drawdown. Accordingly, on a case by case basis, we may elect to terminate or not renew several of our credit facilities if significant reduction in our available short term borrowings that we do not deem it is commercially reasonable. The Company has obtained a \$20 million purchase credit from Samsung. The Company plans to raise \$30 million from the capital markets in order to pursue certain acquisitions.

We will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that we 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 must be made a day in advance of the release of goods from Samsung'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 a negative impact 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. The establishment of ATMD will not affect our liquidity and capital resources, as pursuant to the joint venture agreement, Tomen will be responsible for the financing of ATMD's operations.

Net Cash Used for Operating Activities

In the year ended December 31, 2011, net cash used for operating activities amounted to \$9,945,170 while net cash used for operating activities in the year ended December 31, 2010, amounted to \$39,852, an increase of \$9,905,318. This increase was primarily due to a \$2,530,080 decrease in operating income, a \$11,561,849 increase in accounts receivable and a \$3,375,491 increase in inventory, which was partially offset by a \$6,859,250 increase in accounts payable, etc.

Net Cash Provided by Investing Activities

In the year ended December 31, 2011, net cash provided by investing activities amounted to \$6,233,947 while net cash used for investing activities in the year ended December 31, 2010, amounted to \$2,640,845, an increase of \$8,874,792. This increase was primarily due to an increase in purchases of property and fixed assets, and decrease in amount due from Aristo / Mr. Yang in 2011.

Net Cash Provided by Financing Activities

In the year ended December 31, 2011, net cash provided by financing activities amounted to \$2,804,626 while net cash provided by financing activities in the year ended December 31, 2010, amounted to \$2,258,308, an increase of \$546,318. This increase was due to an increase in the Company's borrowings on certain bank lines of credit and notes payable and due to purchase of property and tax loan borrowing.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2011 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 | \$ 478,316 | \$ 198,353 | \$ 153,040 | \$ 126,923 | \$ |
| Capital Leases | 339,806 | 109,872 | 229,934 | | |
| Line of credit and notes payable short-term | 13,642,578 | 13,642,578 | | | |
| Bank Loans | 4,170,009 | 4,170,009 | | | |
| Total Contractual Obligations | \$ 18,630,709 | \$ 18,120,812 | \$ 382,974 | \$ 126,923 | \$ |

Off-Balance Sheet Arrangements

None.

Related Party Transactions

We conduct business with several affiliated companies. All of 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.

Amounts due from Aristo / Mr. Yang represented Aristo transactions with various related parties of Mr. Yang.

Dependence of Samsung

We are highly dependent on product supplies from Samsung. If the relationship with Samsung is terminated, we may not be able to continue our business. We have been working on diversifying our product line and seeking new market opportunities.

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 April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. A provision in ASU 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU 2010-20. The adoption of ASU 2011-02 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-03, Consideration of Effective Control on Repurchase Agreements, which deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance

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should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 is not expected to have a material impact on the Company's financial condition or results of operation.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

In June 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part

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of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position. However, it will impact the presentation of comprehensive income.

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-06, Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers. This ASU amends the FASB Accounting Standards CodificationTM (Codification) to provide guidance about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. ASU 2011-06 represents a consensus of the EITF on Issue No. 10-H, Fees Paid to the Federal Government by Health Insurers. ASU 2011-06 requires that the liability for the fee be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

ASU 2011-06 is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The ASU represents a consensus of the EITF on Issue No. 09-H, Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts. The amendments in this ASU require certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this ASU should be provided for the period of adoption and subsequent reporting periods.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles—Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-09, Compensation-Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan. ASU 2011-09 is intended to address concerns from various users of financial statements on the lack of transparency about an employer's participation in a multiemployer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The amendments in this ASU will require additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. For public entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2011. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012. Early adoption is permissible for both public and nonpublic entities. ASU 2011-09 should be applied retrospectively for all prior periods presented.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-10, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification. ASU No. 2011-10 is intended to resolve the diversity in practice about whether the guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, Consolidation—Overall) in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This Update does not address whether the guidance in Subtopic 360-20 would apply to other circumstances when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, ASU 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, ASU 2011-10 is effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted.

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In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 is intended to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU No. 2011-11 is intended to supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

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 9A. Controls and Procedures

(a) Disclosure 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.

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures. The Company's CEO and CFO have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2011, and based on this evaluation, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officer's

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conclusion regarding the Company's disclosure controls and procedures is based on management's conclusion that the Company's internal control over financial reporting are ineffective, as described below.

(b) Management Report on Internal Control over Financial Reporting

The Company's CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making its assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weakness described in the following paragraphs, management believes that, as of December 31, 2011, the company's internal control over financial reporting was not effective based on those criteria.

Management's evaluation was retrospective and conducted as of December 31, 2011, the last day of the fiscal year covered by this Form 10-K. Based upon management's evaluation, our CEO and CFO have concluded that our internal controls over financial reporting were not effective as of December 31, 2011 because we have not completed the remediation (discussed elsewhere in this document) for the fiscal year ended December 31, 2011 due to the following material weaknesses:

Company-level controls. We did not maintain effective company-level controls as defined in the Internal Control Integrated Framework published by COSO. These deficiencies related to each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring). These deficiencies resulted in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

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

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

no formally documented financial analysis was presented to our board of directors, specifically fluctuation, variance, trend analysis or business performance reviews;

an effective whistleblower program had not been established;

there was insufficient oversight of external audit specifically related to fees, scope of activities, executive sessions, and monitoring of results;

there was insufficient oversight of accounting principle implementation;

there was insufficient review of related party transactions; and

there was insufficient review of recording of stock transactions.

We did not maintain 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 were functioning effectively and that identified control deficiencies were remediated in a timely manner;

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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 the 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. In addition, as discussed in Note 2 of Notes to the Consolidated Financial Statements of this Form 10-K, we recently determined that Aristo Technologies Limited (Aristo), a related party, is a variable interest entity under FASB ASC 810-10-25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and are restating our previously filed annual and interim financial statements in amended Form 10-Ks for years ended 2007 and 2008 to reflect the disclosure in accordance with ASC 810-10-25.

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

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

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

We had inadequate procedures and controls to ensure proper authorization of purchase orders; and

We had inadequate approvals for payment of invoices and wire transfers.

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

As of December 31, 2011, we had not completed the remediation of any of these material weaknesses.

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

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

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

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

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

We have restricted access to all financial modules. In order to mitigate the risks of management or other override, only authorized persons have edit access to each. We will remove or add authorized personnel as appropriate to mitigate the risks of management or other override; and

We have re-assigned roles and responsibilities, and intend to continue improving segregation of duties.

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These specific actions are part of an overall program that we are currently developing in an effort to remediate the material weaknesses described above.

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 9A includes information concerning the controls and controls evaluation referred to in the certifications and those certifications should be read in conjunction with this Item 9A 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

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 quarter ended December 31, 2011 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, 2011, and their biographical information are set forth below:

| NAME | AGE | POSITION |
|----------------------|-----|--|
| Chung-Lun Yang | 50 | Chairman of the Board of Directors and Chief Executive Officer |
| Kenneth Lap-Yin Chan | 49 | Director and Chief Operating Officer |
| Kun Lin Lee | 46 | Director and Chief Financial Officer |
| Ming Yan Leung | 43 | Chief Technology Officer |
| Man Sing Lai | 43 | Director |
| Ho Man Yeung | 56 | Director |
| Wing Sun Leung | 48 | Director |
| Hung Ming Joseph Chu | 56 | Director |

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 University 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 of extensive experience in the electronics distribution business. The breadth of Mr. Yang's sales and operational experience led the Board of Directors to believe this individual is qualified to serve as a director of the Company. Mr. Yang is also a member of The Institution of Electrical Engineers, United Kingdom.

Kenneth Lap-Yin Chan, Director and Chief Operating Officer. Mr. Chan became a Director and Chief Operating Officer on June 11, 2010. Mr. Chan was previously serving the Company as the Chief Financial Officer since September 30, 2003. Mr. Chan has been with Atlantic since 2001 serving as Financial Controller. From 1988 to 2001, Mr. Chan worked for a number of banks in Hong Kong, including Standard Chartered Bank, Dao Heng Bank and Asia Commercial Bank. He has more than 12 years of experience in corporate and commercial finance, based on which he was chosen to be a member of the board. Mr. Chan graduated from the University of Toronto in 1986 with a Bachelor's Degree in Commerce.

Kun Lin Lee, Director and Chief Financial Officer. Mr. Lee became a Director and Chief Financial Officer on June 11, 2010. Prior to appointment as the Company's Chief Financial Officer, Mr. Lee held various executive positions, including VP Finance/Business Development at the Company from November, 2009 to May 2010 and Director of Internal Audits, at Sigma Designs Inc and Catalyst Semiconductor from May, 2006 to May, 2007 and April, 2005 to October 2006, respectively where he oversaw its finance, strategy, business development, regulatory compliance and risk management. Mr. Lee started his public accounting career with Arthur Andersen in December, 1997 and later joined BDO Siedman in December, 2004. He later joined an investment banking firm VIA, Inc. servicing semiconductor clients in merger & acquisition, business valuation, and fundraising. Mr. Lee received his B.B.A. degree in Finance from University of Hawaii at Manoa, and his MS from Golden Gate University. In addition, Mr. Lee is a Certified Public Accountant, Certified Information Technology Professional, Certified Financial Forensic Accountant and a graduate of CalCPA Leadership Institute. Mr. Lee was chosen to be a member of the board based on his wealth of experience in business management and corporate governance.

Ming Yan Leung, Chief Technology Officer. Mr. Leung was appointed as our Chief Technology Officer on June 11, 2010. Prior to joining the Company, Mr. Leung was Chief Architect Officer of RV Technology Ltd., where he oversaw various mobile solutions and services for enterprises and end users. In 1997, Mr. Leung ran the banking solution team at the Tech-Trans Group where he led the implementation of SWIFT-related solution for various banking institutes and a mobile workforce system for an electricity supply company. Mr. Leung holds a Masters in Engineering Management from the University of Technology, Sydney, and a Postgraduate degree in Investment Decision Making from Wuhan University of Technology. Mr. Leung was chosen to be a member of the board based on his experience in managing development and implementation of electronic devices and solutions for more than 10 years.

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Man Sing Lai, Director. Mr. Lai became an Independent Director on December 1, 2010. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HK\$10,000). Mr. Lai has been Chief Financial Officer of Mainland Headwear Holdings Limited since 2008, a headwear manufacturer whose shares are publicly traded on the main board of the Hong Kong Stock Exchange. From 2007 to 2008 Mr. Lai was Financial Controller of J.I.C. Technology Company Limited, a LCD manufacturer whose shares are publicly traded on the main board of the Hong Kong Stock Exchange. From 2001 to 2007, Mr. Lai was the Director of Finance at GVG Digital Technology Holdings (HK) Ltd a DVD player manufacturer in China. Mr. Lai graduated with a BSc in Management Science from the London School of Economics in 1990, a Bachelors of Business in 1994 from the University of Southern Queensland in Australia and a Masters in Business Administration in 2007 from the University of Western Sydney in Australia. Mr. Lai is a member of the HKICPA and CPA Australia. It is base on his extensive experience in business management and corporate governance that Mr. Lai was chosen to be a member of the board.

Ho Man Yeung, Director. Mr. Yeung became an Independent Director on December 1, 2010. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HK\$10,000). Mr. Yeung has been a Director of Avnet Sunrise Ltd. since 2002. Avnet Sunrise Ltd. is a subsidiary of Avnet, Inc. [NYSE: AVT] a global distributor of electronic components and devices. Mr. Yeung has over twenty-five years of experience in the electronic distribution industry. It is these experiences and qualifications upon which Mr. Yeung was chosen to be a member of our board. Mr. Yeung graduated from University of Salford with a BSc in Electronics and earned a Certified Diploma of Accounting at Manchester Polytechnic University.

Wing Sun Leung, Director. Mr. Leung became an Independent Director on December 1, 2010. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HK\$10,000). Mr. Leung has been Project Director since April 2010 at German Alternative Investment (Shenzhen) Company Co. Ltd. an investment and advisory services firm. From 2007 to 2009, Mr. Leung was Vice President and Senior Consultant at Shenzhen Everich Industrial Co. Ltd., an importer and exporter of electronics. Prior to that, Mr. Leung was Sales Director at Sigmatel Asia Inc., a distributor of electronic components in China and Hong Kong. Mr. Leung has over twenty years of experience in the electronics distribution industry in the United States, China and Hong Kong. Mr. Leung graduated from the Chinese University of Hong Kong with a BSc in Social Science. Based on such professional experience, Mr. Leung was chosen to be a member of the board. This experience will inure to the Company's benefit as it seeks to expand its business and maintain its profitability.

Dr. Hung Ming Joseph Chu, Director. Dr. Chu became an Independent Director on January 1, 2011. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HK\$10,000). Dr. Chu is Vice President of Global Business Development at Sydaap Technologies Pvt. Ltd. Previously, from 2008, Mr. Chu was Vice President of Mirics Semiconductor, a developer of silicon and software solutions for analog and digital broadcast reception. From 2005 to 2008, Mr. Chu was Vice President and Director of Business Development at Parlex Corp. [NASDAQ: PRLX] now a subsidiary of Johnson Electric. Mr. Chu has over 25 years of experience in the communication and semiconductor industry, with 18 of those years spent focusing on business development and marketing activities in Asia, which qualify him to be chosen as a member of the board. Mr. Chu earned an MSc in Engineering from King's College of the University of London and is a member of the Chartered Management Institute (formerly known as British Institute of Management).

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, 2011, our Board of Directors held 4 meetings. No director who served during the fiscal year ended December 31, 2011 attended fewer than 80% of the meetings of the Board of Directors during that year.

Committees of the Board

On January 20, 2011, the Board of Directors establishes an Audit Committee, Nominating Committee and Compensation Committee of the Board of Directors, and elected:

- (i) Mr. Man Sing Lai, Mr. Ho Man Yeung and Mr. Wing Sun Leung to serve on the Audit Committee, and Mr. Man Sing Lai to act as the Chairman of the Audit Committee;
- (ii) Mr. Man Sing Lai, Mr. Ho Man Yeung, Mr. Wing Sun Leung and Mr. Hung Ming Joseph Chu to serve on the Nominating Committee, and Mr. Man Sing Lai to act as the Chairman of the Nominating Committee; and
- (iii)

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Mr. Man Sing Lai, Mr. Ho Man Yeung and Mr. Wing Sun Leung to serve on the Compensation Committee, and Mr. Man Sing Lai to act as the Chairman of the Compensation Committee.

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Board Leadership Structure and Risk Oversight Role

Our Chief Executive Officer also serves as Chairman of our Board of Directors. Our Board of Directors contains 7 Directors, and 4 of the Directors are Independent Directors. We believe that such a leadership structure is suitable for the Company at its present stage of development, and that the interests of the Company are best served by the combination of the roles of Chairman of the Board and Chief Executive Officer.

As a matter of regular practice, and as part of its oversight function, our Board of Directors undertakes a review of the significant risks in respect to our business. Such review is supplemented as necessary by outside professionals with expertise in substantive areas germane to our business. With our current governance structure, our Board of Directors and senior executives, there is not a significant division of oversight and operational responsibilities in managing the material risks facing the Company.

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., Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, 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., Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, 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 the 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, 2011 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 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, 2011 are: Chung-Lun Yang, our Chief Executive Officer; Kun Lin Lee, our Chief Financial Officer; Kenneth Lap-Yin Chan, our Chief Operating Officer; and Ming Yan Leung, our Chief Technology Officer. These individuals are referred to collectively in this Annual Report on Form 10-K as the Named Executive Officers.

OUR EXECUTIVE COMPENSATION PROGRAM

Overview

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

The emphasis on the annual bonus opportunity and equity compensation components of the executive compensation program reflect our belief that a large portion of an executive's compensation should be performance-based. This compensation is performance-based because payment is tied to the achievement of corporate performance goals. To the extent that performance goals are not achieved, executives will receive a lesser amount of total compensation. We have entered into employment agreements with four 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 competitiveness of the marketplace. Base salary adjustments are considered and take into account changes in the executive's responsibilities, the executive's performance and changes in the competitiveness of the 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

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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 have in the past used stock options as incentives for our other employees. Stock options generally vest over time, with obtainment of a corporate goal, or a combination of the two. 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 2011 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 2011.

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, 2011.

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 entered into employment agreements with our Mr. Yang, which sets the base salary as set forth in our summary compensation table.

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, 2011 and December 31, 2010.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|-------------|--------------------|-------------------|--------------------------|---------------------------|--|--|------------------------------------|-------------------|
| Chung-Lun Yang, | 2011 | \$ 492,308 | 1,000,000 | | | | | | \$ 1,492,308 |
| Chairman of the Board and Chief Executive Officer | 2010 | \$ 443,590 | 800,000 | | | | | | \$ 1,243,590 |

Outstanding equity awards at fiscal year-end

None.

Compensation of Directors

The following table sets forth the Director compensation for service on the Board of Directors of the Company for the fiscal year ended December 31, 2011.

| Name (a) | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$)* | Non-Equity Incentive Plan Compensation (\$) | Non-qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|----------------------|---|--------------------------|----------------------------|--|--|------------------------------------|-------------------|
| Man Sing Lai | \$ 15,385 | | | | | | \$ 15,385 |
| Ho Man Yeung | \$ 15,385 | | | | | | \$ 15,385 |
| Wing Sun Leung | \$ 15,385 | | | | | | \$ 15,385 |
| Hung Ming Joseph Chu | \$ 15,385 | | | | | | \$ 15,385 |
| Kun Lin Lee | | | | | | | |
| Kenneth Lap-Yin Chan | | | | | | | |

We compensate our independent directors an amount of HK\$10,000 (US\$1,282) per month for serving on our board of directors, in addition to reimbursement for out of pocket expenses incurred in attending director meetings. We do not compensate our executive directors for serving on the board of directors.

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, 2011: (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 29,025,436 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, 2011. 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 | 22,185,000 | 76.4% |
| Kun Lin Lee (2) (3) 7F, No 16 Huan-her East Road Sec 4, Yuan Ho City, Taipei, Taiwan | 50,000 | 0.2% |
| Kenneth Lap-Yin Chan (2) (3) Flat B, 8/F., Block 19, South Horizons, Aplei Chau, Hong Kong | 0 | 0.0% |
| Ming Yan Leung (2) G/F., 11 Ka Fuk Lane, Tuen Mun, New Territories, Hong Kong | 0 | 0.0% |
| Man Sing Lai (3) Flat B, 23/F., Block 31, Laguna City, Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong | 0 | 0.0% |
| Ho Man Yeung (3) Block 4, 7/F. Unit B, The Grand Panorama, 10 Robinson Road, Central, Hong Kong | 0 | 0.0% |
| Wing Sun Leung (3) 5658 Owens Drive, #202, Pleasanton, CA 94588, USA | 0 | 0.0% |
| Hung Ming Joseph Chu (3) 8D, Block 6, The Sherwood, Tuen Mun, New Territories, Hong Kong | 0 | 0.0% |
| All Directors and Officers as a Group | 22,235,000 | 76.6% |

(1) Applicable percentage of ownership is based on 29,025,436 shares of Common Stock outstanding as of December 31, 2011, together with securities exercisable or convertible into shares of Common Stock within 60 days of December 31, 2011, 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, 2011, 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

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

This represented Aristo transactions with various related parties of Mr. Yang.

As of December 31, 2011 and 2010, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$5,780,400 and \$13,647,827, respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

For the years ended December 31, 2011 and 2010, we recorded compensation to Mr. Yang of \$1,492,308 and \$1,243,590 respectively, and paid \$1,492,308 and \$1,243,590 respectively to Mr. Yang as compensation for his services.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. (Solution). On April 1, 2009, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expired on April 30, 2011. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$4,359 and \$13,077 to Solution during the year ended December 31, 2011 and 2010.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$49,421 and \$43,123 respectively from Solution. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Solution.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (DBS Bank) (formerly Overseas Trust Bank Limited) and The Bank of East Asia, Limited (BEA Bank) respectively.

Transactions with Systematic Information Limited

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, 2010, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expired on April 30, 2011. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$2,564 and \$7,692 to Systematic Information during the years ended December 31, 2011 and 2010.

During the years ended December 31, 2011 and 2010, we received service charges of \$8,154 and \$8,154 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the years ended December 31, 2011 and 2010, we sold products for \$1,347,148 and \$767,981 respectively, to Systematic Information. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Systematic Information.

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

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (Global). During the years ended December 31, 2011 and 2010, we sold products for \$3,325 and \$8,292 respectively, to Global. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Global.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$0 and \$2,308 respectively from Global. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Global.

Transactions with Systematic Semiconductor Limited

Mr. Yang is a director and sole beneficial owner of the equity interests of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2011 and 2010, we received a management fee of \$7,692 and \$7,692 respectively from Systematic. The management fee was charged for back office support for Systematic.

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (Atlantic Storage). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2011 and 2010, we sold products for \$361,698 and \$9,589 respectively, to Atlantic Storage. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Atlantic Storage.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$101,790 and \$28,800 respectively, from Atlantic Storage. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Atlantic Storage.

Transactions with City Royal Limited

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

Transactions with Kasontech Electronics Limited

Mr. Kenneth Lap-Yin Chan, the Company's Director and Chief Operating Officer, is a 33% shareholder of Kasontech Electronics Limited (Kasontech). During the years ended December 31, 2011 and 2010, we received a management fee of \$7,949 and \$12,821 respectively from Kasontech. The management fee was charged for back office support for Kasontech. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Kasontech.

Transactions with Aristo Components Limited

Mr. Ben Wong resigned from his director position with the Company effective on June 11, 2010. He is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. After the date of his resignation, all companies under his personal control will no longer be a related party and will not enjoy privileged treatment and will be subject to the same trading terms as other ordinary outside parties. During the years ended December 31, 2011 and 2010, we received a management fee of \$12,308 and \$12,308 respectively from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

During the years ended December 31, 2011 and 2010, we sold products for \$1,403,064 and \$120,282 respectively, to Aristo Comp. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Aristo Comp.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$39,107 and \$276 respectively from Aristo Comp. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Aristo Comp.

Transactions with Smart Global Industrial Limited

Mr. Yang is a director and 50% shareholder of Smart Global Industrial Limited (Smart). During the years ended December 31, 2011 and 2010, we sold products for \$26,886 and \$0 respectively to Smart. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Smart.

Item 14. Principal Accounting Fees and Services

The following table presents fees, including reimbursements for expenses, professional audit services and other services rendered by Albert Wong & Co. CPA firms during the years ended December 31, 2011 and 2010. Albert Wong & Co. audited our annual financial statements for the year ended December 31, 2011 and 2010.

| | Fiscal 2011 | Fiscal 2010 |
|------------------------|--------------------|--------------------|
| Audit Fees (1) | \$ 70,000 | \$ 58,000 |
| Audit Related Fees (2) | \$ | \$ |
| Tax Fees (3) | \$ | \$ |
| All Other Fees (4) | \$ | \$ |
| Total | \$ 70,000 | \$ 58,000 |

- (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 Albert Wong & Co. CPA firms in connection with statutory and regulatory filings or engagements. Audit Fees billed by Albert Wong & Co. CPA firm includes audited fees for auditing our annual financial statements and interim reviews for the fiscal year 2010 to 2011.
- (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 2011 or 2010.
- (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 2011 or 2010.
- (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 2011 or 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report

- (1) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this report
- (2) The financial statements listed in the Index are filed a part of this report.

Schedule II Valuation and Qualifying Accounts and Reserves. Schedule II on page S-1 is filed as part of this report.

(3) List of Exhibits

See Index to Exhibits in paragraph (b) below.

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

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

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

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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.
- 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.
- 10.21 Compensation Agreement with Kun Lin Lee, Chief Financial Officer executed on February 21, 2011 incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on February 25, 2011.
- 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.
- 21.1* Subsidiaries of the Company
- 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.*

** 101.INS XBRL Instance Document

** 101.SCH XBRL Taxonomy Extension Schema Document

** 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

** 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

** 101.LAB XBRL Taxonomy Extension Label Linkbase Document

** 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

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

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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: April 16, 2012

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|----------------|
| <u>/s/ Chung-Lun Yang</u> Chung-Lun Yang | Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) | April 16, 2012 |
| <u>/s/ Kun Lin Lee</u> Kun Lin Lee | Chief Financial Officer (Principal Financial and Accounting Officer) and Director | April 16, 2012 |
| <u>/s/ Kenneth Lap Yin Chan</u> Kenneth Lap Yin Chan | Chief Operating Officer and Director | April 16, 2012 |
| <u>/s/ Man Sing Lai</u> Man Sing Lai | Director | April 16, 2012 |
| <u>/s/ Ho Man Yeung</u> Ho Man Yeung | Director | April 16, 2012 |
| <u>/s/ Hung Ming Joseph Chu</u> Hung Ming Joseph Chu | Director | April 16, 2012 |
| <u>/s/ Wing Sun Leung</u> Wing Sun Leung | Director | April 16, 2012 |

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ACL Semiconductors Inc. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2011 and December 31, 2010 and
the Years Ended December 31, 2011 and 2010

With Report of Independent Registered Public Accounting Firm

F-1

Index to Consolidated Financial Statements

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| F-1 | |

ALBERT WONG & CO.

CERTIFIED PUBLIC ACCOUNTANTS
7th Floor, Nan Dao Commercial Building
359-361 Queen's Road Central
Hong Kong
Tel: 2851 7954
Fax: 2545 4086

ALBERT WONG

B.Soc., Sc., ACA., LL.B., C.P.A.(Practising)

To: The board of directors and stockholders of
ACL Semiconductors Inc. (the Company)

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of the Company as of December 31, 2011 and 2010 and the related consolidated statements of income and comprehensive income, consolidated stockholders' equity and accumulated other comprehensive income and consolidated cash flows for the years then ended. These consolidated 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 audit.

We conducted our audit in accordance with 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, the Company does have numerous significant transactions with businesses and affiliates controlled by, and/or with personnel who are related to, the officers and directors of the Company.

Hong Kong, China
April 16, 2012

/s/ Albert Wong & Co.
Albert Wong & Co.
Certified Public Accountants

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in US Dollars)

CONSOLIDATED BALANCE SHEETS

| | Notes | 2011 | 2010 |
|--|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 678,819 | \$ 1,579,416 |
| Restricted cash | | 2,089,041 | 2,088,374 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,760,709 for 2011 and \$0 for 2010 | | 25,756,889 | 14,195,067 |
| Accounts receivable, related parties | | | |
| Inventories, net | 3 | 3,094,267 | 3,064,567 |
| Other current assets | | 144,642 | 117,233 |
| | | <u> </u> | <u> </u> |
| Total current assets | | \$ 31,757,658 | \$ 21,044,657 |
| Property, plant and equipment, net | 4 | 9,794,517 | 8,227,546 |
| Other deposits | | 64,579 | 71,564 |
| Amounts due from Aristo / Mr. Yang | | 5,780,400 | 13,647,827 |
| | | <u> </u> | <u> </u> |
| TOTAL ASSETS | | \$ 47,397,154 | \$ 42,991,594 |
| | | <u> </u> | <u> </u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | | \$ 23,809,295 | \$ 20,394,399 |
| Accruals | | 470,676 | 718,416 |
| Lines of credit and loan facilities | 7 | 13,642,578 | 11,153,021 |
| Bank loan | 8 | 3,689,240 | 2,750,024 |
| Current portion of capital lease | 5 | 109,872 | 178,659 |
| Income tax payable | | (202,068) | 70,157 |
| Due to shareholders for converted pledged collateral | | 112,385 | 112,385 |
| Other current liabilities | | 509,095 | 872,811 |
| | | <u> </u> | <u> </u> |
| Total current liabilities | | \$ 42,141,073 | \$ 36,249,872 |
| | | <u> </u> | <u> </u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in US Dollars)

| | | | |
|---|---|-------------------|-------------------|
| Long-term liabilities | | | |
| Capital lease, less current portion | 5 | \$ 229,934 | \$ 100,915 |
| Deferred tax liabilities | | 63,245 | 45,504 |
| | | <u> </u> | <u> </u> |
| Total long-term liabilities | | 293,179 | 146,419 |
| | | <u> </u> | <u> </u> |
| | | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | | \$ 42,434,252 | \$ 36,396,291 |
| | | <u> </u> | <u> </u> |
| | | <u> </u> | <u> </u> |
| NET ASSETS | | \$ 4,962,902 | \$ 6,595,303 |
| | | <u> </u> | <u> </u> |
| | | <u> </u> | <u> </u> |
| Commitments and contingencies | | \$ | \$ |
| | | <u> </u> | <u> </u> |
| | | <u> </u> | <u> </u> |
| STOCKHOLDERS EQUITY | | | |
| Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2011 and 2010 | | | |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 29,025,436 and 28,779,936 shares issued and outstanding as of December 31, 2011 and 2010 | | 29,026 | 28,780 |
| Additional paid in capital | | 3,753,577 | 3,679,077 |
| Retained earnings | | 1,180,299 | 2,887,446 |
| | | <u> </u> | <u> </u> |
| TOTAL STOCKHOLDERS EQUITY | | \$ 4,962,902 | \$ 6,595,303 |
| | | <u> </u> | <u> </u> |

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in US Dollars)

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | | 2011 | 2010 |
|---|-------|-----------------------|---------------------|
| | Notes | | |
| Net sales | | \$ 368,949,999 | \$ 408,762,128 |
| Costs of sales | | (362,775,240) | (401,372,806) |
| Gross profit | | <u>\$ 6,174,759</u> | <u>\$ 7,389,322</u> |
| Selling and distribution costs | | (116,459) | (113,772) |
| General and administrative expenses | | <u>(7,338,508)</u> | <u>(4,754,404)</u> |
| Income/(loss) from operation | | \$ 1,280,208 | \$ 2,521,146 |
| Other income (expenses) | | | |
| Rental income | | 159,268 | 120,000 |
| Interest expenses | | (555,306) | (416,846) |
| Management and service income | | 48,410 | 40,974 |
| Net income on cash flow hedge | | | 15,410 |
| Interest income | | 1,908 | 1,280 |
| Profit on disposals of equipment | | 13,815 | 39,564 |
| Exchange differences | | 2,615 | (36,135) |
| Miscellaneous | | 99,773 | 37,283 |
| Income/(loss) before income taxes | | <u>\$ (1,509,725)</u> | <u>\$ 2,322,676</u> |
| Income taxes | 9 | (197,422) | (389,415) |
| Net (loss) income | | <u>\$ (1,707,147)</u> | <u>\$ 1,933,261</u> |
| Earnings (loss) per share basic and diluted | | <u>\$ (0.06)</u> | <u>\$ 0.07</u> |
| Weighted average number of shares basic and diluted | 10 | <u>28,839,232</u> | <u>28,741,854</u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in US Dollars)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND
ACCUMULATED OTHER COMPREHENSIVE INCOME

| | Number of shares | Amount | Additional paid-in capital | Retained earnings/ (accumulated losses) | Total |
|----------------------------|---------------------|------------------|----------------------------------|--|---------------------|
| Balance, January 1, 2010 | 28,729,936 | \$ 28,730 | \$ 3,658,627 | \$ 954,185 | \$ 4,641,542 |
| Issue of capital | 50,000 | 50 | 20,450 | | 20,500 |
| Net income | | | | 1,933,261 | 1,933,261 |
| | <u>28,779,936</u> | <u>\$ 28,780</u> | <u>\$ 3,679,077</u> | <u>\$ 2,887,446</u> | <u>\$ 6,595,303</u> |
| Balance, December 31, 2010 | 28,779,936 | \$ 28,780 | \$ 3,679,077 | \$ 2,887,446 | \$ 6,595,303 |
| Balance, January 1, 2011 | 28,779,936 | \$ 28,780 | \$ 3,679,077 | \$ 2,887,446 | \$ 6,595,303 |
| Issue of capital | 245,500 | 246 | 74,500 | | 74,746 |
| Net loss | | | | (1,707,147) | (1,707,147) |
| | <u>29,025,436</u> | <u>\$ 29,026</u> | <u>\$ 3,735,677</u> | <u>\$ 1,180,299</u> | <u>\$ 4,962,902</u> |

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Stated in US Dollars)

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 2011 | 2010 |
|--|----------------|----------------|
| Cash flows provided by (used for) operating activities: | | |
| Net (loss) income | \$ (1,707,147) | \$ 1,933,261 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Allowance for doubtful accounts | 1,760,709 | |
| Depreciation and amortization | 479,002 | 418,611 |
| Change in inventory reserve | 196,255 | (165,987) |
| Issuance of common stocks to consultant as: | | |
| - professional fee under financial consultant agreement | | 20,500 |
| - professional fee for consultant services | 18,000 | |
| Gain on disposal of fixed assets | (13,815) | (39,564) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets | | |
| Accounts receivable other | (13,322,530) | (1,760,681) |
| Inventories | (225,955) | 3,149,536 |
| Other current assets | (27,409) | 157,118 |
| Other assets | 6,985 | 141,971 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 3,414,896 | (3,444,354) |
| Accrued expenses | (247,740) | 190,834 |
| Income tax payable | (272,225) | (434,921) |
| Other current liabilities | (21,937) | (232,212) |
| Deferred tax | 17,741 | 26,036 |
| Net cash provided by (used for) operating activities | \$ (9,945,170) | \$ (39,852) |
| Cash flows used for investing activities: | | |
| Advanced from Aristo / Mr. Yang | \$ 25,141,461 | \$ 6,756,897 |
| Advanced to Aristo / Mr. Yang | (17,274,034) | (9,170,885) |
| Increase in restricted cash | (667) | (1,870) |
| Cash proceeds from sales of fixed assets | 132,308 | 122,178 |
| Purchase of property and fixed assets | (1,765,121) | (347,165) |
| Net cash provided by (used for) investing activities | \$ 6,233,947 | \$ (2,640,845) |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in US Dollars)

| | | |
|---|-----------------------------|-----------------------------|
| Cash flows provided by (used for) financing activities: | | |
| Net borrowings on lines of credit and notes payable | \$ 2,489,557 | \$ 2,139,208 |
| Principal payments to bank | (1,325,640) | (390,531) |
| Borrowing from bank | 1,923,077 | 896,150 |
| Principal payments under capital lease obligation | (339,113) | (386,519) |
| Cash proceeds from issuance of common stock | 56,745 | |
| | <u> </u> | <u> </u> |
| Net cash provided by (used for) financing activities | \$ 2,804,626 | \$ 2,258,308 |
| | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | \$ (906,597) | \$ (422,389) |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents beginning of year | 1,579,416 | 2,001,805 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents end of year | \$ 672,819 | \$ 1,579,416 |
| | <u> </u> | <u> </u> |
| Supplementary disclosure of cash flow information: | | |
| Interest paid | \$ 555,306 | \$ 416,846 |
| Income tax paid | 451,906 | 798,300 |
| | <u> </u> | <u> </u> |
| Supplementary schedule of non-cash investing and financing activities: | | |
| Capital lease obligations incurred when capital leases were enter for new automobiles and machinery | \$ 399,345 | \$ 201,841 |
| Income tax provision | 197,422 | 389,415 |
| | <u> </u> | <u> </u> |

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND PRINCIPAL ACTIVITY

Organization and Basis of Presentation

In September 2003, the Company entered into a Share Exchange and Reorganization Agreement with Atlantic Components Limited, a Hong Kong corporation (Atlantic), and Mr. Chung-Lun Yang, the sole beneficial stockholder of Atlantic (Mr. Yang), and as a result Atlantic became a wholly-owned subsidiary of the Company. In December 2003, the Company changed its name from Print Data Corp. to ACL Semiconductors Inc.

On December 14, 2010, the Company set up a wholly-owned subsidiary, ACL International Holdings Limited (ACL Holdings) in Hong Kong. On December 17, 2010 the Company restructured the group; the Company's wholly owned subsidiary, Atlantic, was transferred to become a wholly owned subsidiary of ACL Holdings.

On March 9, 2012, ACL Holdings entered into an agreement with Tomen Devices Corporation (Tomen) to create a joint venture, ATMD (Hong Kong) Limited (ATMD), which will become effective as of April 1 2012. ATMD will issue USD10,000,000 in share capital, with ACL Holdings to own 30% and Tomen own 70%, respectively of ATMD. ATMD will sell products of Samsung Electronics Hong Kong Co., Ltd. (Samsung) to the Greater China market. Mr. Yang, the Company's Chief Executive Officer will be the Chief Executive Officer of ATMD.

Business Activity

ACL Semiconductors Inc. (Company or ACL) was incorporated in the State of Delaware on September 17, 2002 and acquired Atlantic Components Ltd., a Hong Kong based company (Atlantic) through a reverse-acquisition that was effective September 30, 2003. The Company's principal activities are distribution of electronic components under the Samsung brand name which comprise Dynamic Random Access Memory (DRAM), Graphic Random Access Memory (Graphic RAM), and Flash for the Hong Kong Special Administrative Region and Republic of China markets. Atlantic was incorporated in Hong Kong on May 30, 1991. 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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(a) Method of Accounting*

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The consolidated financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of consolidated financial statements.

(b) Principles of consolidation

The consolidated financial statements are presented in US Dollars and include the accounts of the Company and its subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

The Company owned its subsidiary soon after its inception and continued to own the equity s interests through December 31, 2011. The following table depicts the identity of the subsidiary:

| Name of Subsidiary | Place of Incorporation | Attributable Equity Interest % | Registered Capital |
|------------------------------------|------------------------|--------------------------------|--------------------|
| ACL International Holdings Limited | Hong Kong | 100 | \$ 0.13 |
| Alpha Perform Technology Limited | BVI | 100 | \$ 1,000 |
| Atlantic Components Limited (1) | Hong Kong | 100 | \$ 384,615 |
| Aristo Technologies Limited (2) | Hong Kong | 100 | \$ 1,282 |

Note: (1) Wholly owned subsidiary of ACL International Holdings Limited

(2) Deemed variable interest entity

Variable Interests Entities

According to ASC 810-10-25 which codified FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46R), an entity that has one or more of the three characteristics set forth therein is considered a variable interest entity. One of such characteristics is that the equity investment at risk in the relevant entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.

ASC 810-05-08A specifies the two characteristics of a controlling financial interest in a variable interest entity (VIE): (1) the power to direct the activities of a VIE that most significantly impact the VIE s economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is the primary beneficiary of Aristo because the Company can direct the activities of Aristo through the common director and major shareholder. Also, the Company extended substantial accounts receivable to Aristo and created an obligation to absorb loss if Aristo failed. Moreover, ASC 810-25-42 & 43 provides guidance on related parties treatment of VIE and specifies the relationship of de-facto agent and principal. This guidance will help to determine whether the Company will consolidate Aristo.

Owing to the extent of outstanding large amounts of accounts receivable since 2007 together with the nominal amount of paid-up capital contributed by Mr. Yang when Aristo was formed, it has been determined that Aristo cannot finance its operations without subordinated financial support from ACL and accordingly, ACL is considered to be the de facto principal of Aristo, Aristo is considered to be the de facto subsidiary of the Company, and Mr. Yang is considered to be a related party of both the Company and Aristo.

By virtue of the above analysis, it has been determined that the Company is the primary beneficiary of Aristo.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Principles of consolidation (Continued)

Aristo Technologies Limited

The Company sells Samsung memory chips to Aristo and allows long grace periods for Aristo to repay the open accounts receivable. Being the biggest creditor, the Company does not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company does not provide any bad debt provision or experience derived from Aristo. Although, the Company is not involved in Aristo's daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. Aristo carries various brands of products such as Samsung, Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo 2011 and 2010 sales were around 14 million and 15 million; it was only a small distributor that accommodated special requirements for specific customers.

Aristo supplies different generations of computer related products. Old generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old products carrying on hand for ten years will have no resell value. Therefore, inventories on hand over ten years will be written-off by Aristo immediately.

The Company sells to Aristo in order to fulfill Aristo's periodic need for Samsung memory products based on prevailing market prices, which Aristo, in turn, sells to its customers. The sales to Aristo for fiscal year 2011, were \$7,086,379 with accounts receivable of \$16,871,739 as of December 31, 2011. For fiscal year 2010 were \$7,123,769 with accounts receivable of \$14,073,937 as of December 31, 2010. For fiscal year 2009, sales to Aristo were \$13,160,521 with accounts receivable of \$10,315,388 as of December 31, 2009. For fiscal year 2008, sales to Aristo were \$9,076,034 with accounts receivable of \$6,695,409 as of December 31, 2008. For fiscal year 2007, sales to Aristo were \$17,165,728 with accounts receivable of \$6,237,905 as of December 31, 2007.

The Company purchases from Aristo, from time to time, LCD panels, Samsung memory chips, DRAM, Flash memory, central processing units, external hard disks, DVD readers and writers that the Company cannot obtain from Samsung directly due to supply limitations.

(c) Use of estimates

The preparation of consolidated financial statements that conform with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time, however, actual results could differ materially from those estimates.

(d) Economic and political risks

The Company's operations are conducted in Hong Kong. A large number of customers are located in Southern China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Hong Kong and China, and by the general state of the economy in Hong Kong and China.

The Company's operations in Hong Kong and customers in Hong Kong and Southern China are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments, and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in Hong Kong and China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*(e) Property, plant and equipment*

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method. Estimated useful lives of the plant and equipment are as follows:

| | |
|-----------------------|--------------------------|
| Automobiles | 3 1/3 years |
| Computers | 5 years |
| Leasehold improvement | 5 years |
| Land and buildings | By estimated useful life |
| Office equipment | 5 years |
| Machinery | 10 years |

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income.

(f) Account receivable

Accounts receivable is carried at the net invoiced value charged to customer. The Company records an allowance for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectability of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

(g) Accounting for the impairment of long-lived assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 360 (formerly Statement of Financial Accounting Standards No. 144). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting years, there was no impairment loss.

(h) Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains bank accounts in Hong Kong. The Company does not maintain any bank accounts in the United States of America.

(i) 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 increased by \$196,255 from \$513,120 as of December 31, 2010 to \$709,375 as of December 31, 2011. The reserve for obsolescence had been increased by \$165,987 from 2009 to 2010.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) *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.

(k) *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 of 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.

The Company did not have any interest or penalty recognized in the income statements for the period ended December 31, 2011 and December 31, 2010 or the balance sheet, as of December 31, 2011 and December 31, 2010. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2009, 2010 and 2011 U.S. federal income tax returns are subject to U.S. Internal Revenue Service examination and the Company's 2005/6, 2006/7, 2007/8, 2008/9, 2009/2010, 2010/11, 2011/12 Hong Kong Company Income Tax filing are subject to Hong Kong Inland Revenue Department examination.

(l) *Foreign currency translation*

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Hong Kong Dollar (HK\$). The consolidated financial statements are translated into United States dollars from HK\$ with a ratio of US\$1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States derived from the Hong Kong Monetary Authority pegging HKD and USD monetary policy.

(m) *Revenue recognition*

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the ASC 605 Revenue Recognition. Under ASC 605, 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.

(n) *Advertising*

The Group expensed all advertising costs as incurred. Advertising expenses included in general and administrative expenses were \$2,803 and \$5,256 for the years ended December 31, 2011 and 2010, respectively.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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.

(q) Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other consolidated financial statements. 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.

(r) Basic and diluted earnings (loss) per share

In accordance with ASC No. 260 (formerly 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.

(s) Reclassification

Certain amounts in the prior period have been reclassified to conform to the current consolidated financial statement presentation.

(t) Recently implemented standards

In 2010, the FASB issued ASC Update (ASU) No.2010-21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs in the FASB Accounting Standards Codification pursuant to SEC Final Rule, Technical Amendments to Rules Forms, Schedules and Codification of Financial Reporting Policies. The adoption of this update did not have any material impact on the Company's financial statements.

In 2010, the FASB issued ASC Update (ASU) No.2010-22, Accounting for Various Topics. This update amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (SAB) No. 112 which amends or rescinds portion of certain SAB topics. SAB 112 was issued to existing SEC guidance into conformity with ASC 805 Business Combination and ASC 810 Consolidation. The adoption of this update did not have any material impact on the Company's financial statements.

In December 2010, the FASB issued ASU 2010-28 an accounting pronouncement related to intangibles—goodwill and other (FASB ASC Topic 350), which requires a company to consider whether there are any adverse qualitative factors indicating that an impairment may exist in performing step 2 of the impairment test for reporting units with zero or negative carrying amounts. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with no early adoption. We will adopt this pronouncement for our fiscal year beginning July 1, 2011. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Recently implemented standards (Continued)

In December 2010, the FASB issued ASU 2010-29 an accounting pronouncement related to business combinations (FASB ASC Topic 815), which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. It also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, Receivable (Topic 310) A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring , which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. A provision in ASU 2011-02 also supersedes the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU 2010-20. The adoption of ASU 2011-02 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-03, Transfers and Servicing (Topic 860), Consideration of Effective Control on Repurchase Agreements, which deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 is not expected to have a material impact on the Company's financial condition or results of operation.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

In June 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position but is evaluating the format revision on the presentation of comprehensive income.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(t) Recently implemented standards (Continued)*

The FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%.

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

NOTE 3. INVENTORIES

Inventories consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|--|------------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| Finished goods | \$ 3,803,641 | \$ 3,577,687 |
| Less allowance for excess and obsolete inventory | (709,374) | (513,120) |
| | <u> </u> | <u> </u> |
| Inventories, net | \$ 3,094,267 | \$ 3,064,567 |
| | <u> </u> | <u> </u> |

The following is a summary of the change in the Company's inventory valuation allowance:

| | December 31, 2011 | December 31, 2010 |
|--|------------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| Inventory valuation allowance, beginning of the year | \$ 513,120 | \$ 347,133 |
| Obsolete inventory sold | (78,396) | (30,215) |
| Additional inventory provision | 274,650 | 196,202 |
| | <u> </u> | <u> </u> |
| Inventory valuation allowance, end of the year | \$ 709,374 | \$ 513,120 |
| | <u> </u> | <u> </u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprise the following:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|----------------------|---------------------|
| At cost | | |
| Land and buildings | \$ 9,375,558 | \$ 7,663,340 |
| Automobiles | 741,651 | 565,412 |
| Office equipment | 197,919 | 191,206 |
| Leasehold improvements | 458,121 | 422,420 |
| Furniture and fixtures | 41,591 | 31,230 |
| Machinery | 499,614 | 499,614 |
| | <u>\$ 11,314,454</u> | <u>\$ 9,373,222</u> |
| Less: accumulated depreciation | (1,519,937) | (1,145,676) |
| | <u>\$ 9,794,517</u> | <u>\$ 8,227,546</u> |

Depreciation and amortization expense included in the general and administrative expenses for the years ended December 31, 2011 and 2010 were \$479,002 and \$418,611 respectively.

Automobiles and machinery include the following amounts under capital leases:

| | <u>December 31, 2011</u> | <u>December 31, 2010</u> |
|-------------------------------|--------------------------|--------------------------|
| Cost | \$ 527,390 | \$ 842,698 |
| Less accumulated depreciation | (125,810) | (133,165) |
| | <u>401,580</u> | <u>709,533</u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. CAPITAL LEASE OBLIGATIONS

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

| | <u>2011</u> | <u>2010</u> |
|---------------------|-------------------|-------------------|
| Current portion | \$ 109,872 | \$ 178,659 |
| Non-current portion | 229,934 | 100,915 |
| | <u>\$ 339,806</u> | <u>\$ 279,574</u> |

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

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|-------------------|-------------------|
| Cost | \$ 527,390 | \$ 842,698 |
| Less: accumulated depreciation | (125,810) | (133,165) |
| | <u>\$ 401,580</u> | <u>\$ 709,533</u> |

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

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Total minimum lease payments | | |
| -Within one year | \$ 122,930 | \$ 194,036 |
| - After one year but within 5 years | 247,320 | 107,962 |
| | <u>\$ 370,250</u> | <u>\$ 301,998</u> |
| Interest expenses relating to future periods | (30,444) | (22,424) |
| Present value of the minimum lease payments | <u>\$ 339,806</u> | <u>\$ 279,574</u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. RELATED PARTY TRANSACTIONS

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

This represented Aristo transactions with various related parties of Mr. Yang.

As of December 31, 2011 and 2010, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$5,780,400 and \$13,647,827, respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

For the years ended December 31, 2011 and 2010, we recorded compensation to Mr. Yang of \$1,492,308 and \$1,243,590 respectively, and paid \$1,492,308 and \$1,243,590 respectively to Mr. Yang as compensation to him.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. (Solution). On April 1, 2009, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expired on April 30, 2011. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$4,359 and \$13,077 to Solution during the year ended December 31, 2011 and 2010.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$49,421 and \$43,123 respectively from Solution. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Solution.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (DBS Bank) (formerly Overseas Trust Bank Limited) and The Bank of East Asia, Limited (BEA Bank) respectively.

Transactions with Systematic Information Limited

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, 2010, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expired on April 30, 2011. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$2,564 and \$7,692 to Systematic Information during the years ended December 31, 2011 and 2010.

During the years ended December 31, 2011 and 2010, we received service charges of \$8,154 and \$8,154 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the years ended December 31, 2011 and 2010, we sold products for \$1,347,148 and \$767,981 respectively, to Systematic Information. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Systematic Information.

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

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (Global). During the years ended December 31, 2011 and 2010, we sold products for \$3,325 and \$8,292 respectively, to Global. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Global.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$0 and \$2,308 respectively from Global. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Global.

Transactions with Systematic Semiconductor Limited

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Mr. Yang is a director and sole beneficial owner of the equity interests of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2011 and 2010, we received a management fee of \$7,692 and \$7,692 respectively 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

NOTE 6. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (Atlantic Storage). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2011 and 2010, we sold products for \$361,698 and \$9,589 respectively, to Atlantic Storage. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Atlantic Storage.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$101,790 and \$28,800 respectively, from Atlantic Storage. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Atlantic Storage.

Transactions with City Royal Limited

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

Transactions with Kasontech Electronics Limited

Mr. Kenneth Lap-Yin Chan, the Company's Director and Chief Operating Officer, is a 33% shareholder of Kasontech Electronics Limited (Kasontech). During the years ended December 31, 2011 and 2010, we received a management fee of \$7,949 and \$12,821 respectively from Kasontech. The management fee was charged for back office support for Kasontech. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Kasontech.

Transactions with Aristo Components Limited

Mr. Ben Wong resigned from his director position with the Company effective on June 11, 2010. He is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. After the date of his resignation, all companies under his personal control will no longer be a related party and will not enjoy privileged treatment and will be subject to the same trading terms as other ordinary outside parties. During the years ended December 31, 2011 and 2010, we received a management fee of \$12,308 and \$12,308 respectively from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

During the years ended December 31, 2011 and 2010, we sold products for \$1,403,064 and \$120,282 respectively, to Aristo Comp. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Aristo Comp.

During the years ended December 31, 2011 and 2010, we purchased inventories of \$39,107 and \$276 respectively from Aristo Comp. As of December 31, 2011 and 2010, there were no outstanding accounts payable to Aristo Comp.

Transactions with Smart Global Industrial Limited

Mr. Yang is a director and 50% shareholder of Smart Global Industrial Limited (Smart). During the years ended December 31, 2011 and 2010, we sold products for \$26,886 and \$0 respectively to Smart. As of December 31, 2011 and 2010, there were no outstanding accounts receivables from Smart.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. REVOLVING LINES OF CREDIT AND LOAN FACILITIES

The Company has available to it a \$6,666,667 revolving line of credit with DBS Bank with an outstanding balance of \$6,657,242 at December 31, 2011 and \$5,127,000 at December 31, 2010. The line of credit bears interest at the bank's standard bills rate less 1% for HKD borrowings and at the bank's standard bills rate less 0.50% for other currency borrowings as of December 31, 2011. The weighted average interest rate approximated 4.25% for 2011 and 2010.

The Company has available to it a \$4,230,769 factoring facility without recourse with DBS Bank with an outstanding balance of \$2,954,365 at December 31, 2011 and \$2,951,106 at December 31, 2010. The factoring facility bears a discounting charge at the bank's standard bills rate less 1% for advance in HKD or the bank's standard bills rate less 0.50% for advance in other currency, and a service charge at 0.45% of invoice amount as of December 31, 2011. The weighted average interest rate approximated 4.25 and 4.75% for 2011 and 2010.

The Company has available to it a \$3,333,333 revolving line of credit with The Bank of East Asia, Limited (BEA) with an outstanding balance of \$3,265,000 at December 31, 2011 and \$2,307,000 at December 31, 2010. The line of credit bears interest at the higher of Hong Kong prime rate or HIBOR plus 2% for HKD facilities and LIBOR plus 1.75% for other currency facilities as of December 31, 2011. The weighted average interest rate approximated 5.25% for 2011 and 2010.

The Company has available to it a \$769,231 revolving line of credit with The Bank of East Asia, Limited (BEA) with an outstanding balance of \$765,971 at December 31, 2011 and \$767,916 at December 31, 2010. The line of credit bears interest at the higher of Hong Kong prime rate plus 0.25% or HIBOR plus 2% for HKD facilities and LIBOR plus 2% for other currency facilities as of December 31, 2010. The weighted average interest rate approximated 5.5% for 2011 and 2010.

The summary of banking facilities at December 31, 2011 is as follows:

| | <u>Granted facilities</u> | <u>Utilized facilities</u> | <u>Not Utilized Facilities</u> |
|--|---------------------------|----------------------------|------------------------------------|
| Lines of credit and loan facilities | | | |
| Factoring Loan | \$ 4,230,769 | \$ 2,954,365 | \$ 1,276,404 |
| Import/Export Loan | 10,769,231 | 10,688,213 | 81,018 |
| | <u>\$ 15,000,000</u> | <u>\$ 13,642,578</u> | <u>\$ 1,357,422</u> |
| Bank Loans | 3,689,240 (a) | 3,689,240 | 0 |
| Overdraft | 346,154 (b) | 271,584 | 74,570 |
| | <u>\$ 19,035,394</u> | <u>\$ 17,603,402</u> | <u>\$ 1,431,992</u> |

(a) The bank loans are combined from the summary of Note (8), total bank loans amount to USD4,170,009 with a tax loan of USD480,769. The tax loan is placed under Other Current Liabilities on the balance sheet. It has a facility limit of USD480,769, bearing an interest rate of HIBOR plus 2.5% per annum.

(b) Including in cash and cash equivalents

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. BANK LOAN

Bank loans were comprised of the following as of December 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Installment loan having a maturity date in July 2026 and carrying an interest rate of 2.4% below the Hong Kong dollar Prime Rate (5.25% at December 31, 2011) to DBS Bank payable in monthly installments of \$9,925 including interest through December 2011 without any balloon payment requirements | \$ 1,419,602 | \$ 1,497,047 |
| Installment loan having a maturity date in July 2011 and carrying an interest rate of 2% below the Hong Kong dollar Prime Rate (5.25% at December 31, 2011) to DBS Bank payable in monthly installments of \$3,782 including interest through December 2011 without any balloon payment requirements | | 26,189 |
| Installment loan having a maturity date in July 2023 and carrying an interest rate of 2.5% below the Hong Kong dollar Prime Rate (5.25% at December 31, 2011) to DBS Bank payable in monthly installments of \$5,240 including interest through December 2011 without any balloon payment requirements | 630,640 | 675,506 |
| Installment loan having a maturity date in July 2014 and carrying an interest rate of 0.25% plus the Hong Kong dollar Prime Rate (5.25% at December 31, 2011) to BEA Bank payable in monthly installments of \$15,406 including interest through December 2011 without any balloon payment requirements | 397,436 | 551,282 |
| Installment loan having a maturity date in June 2026 and carrying an Interest rate of 2% per annum over one month HIBOR (0.24% at December 31, 2011) to DBS Bank payable in monthly installments of \$5,026 including interest through December 2011 without any balloon Payment requirements | 747,497 | |
| Installment loan having a maturity date in June 2023 and carrying an Interest rate of 2% per annum over one month HIBOR (0.24% at December 31, 2011) to DBS Bank payable in monthly installments of \$4,058 including interest through December 2011 without any balloon Payment requirements | 494,065 | |
| | <u>\$ 3,689,240</u> | <u>\$ 2,750,024</u> |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. BANK LOAN (Continued)

An analysis on the repayment of bank loan as of December 31 is as follows:

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Carrying amount that are repayable on demand or within twelve months from December 31, 2011 containing a repayable on demand clause: | | |
| Within twelve months | \$ 361,734 | \$ 302,346 |
| Carrying amount that are not repayable within twelve months from December 31, 2011 containing a repayable on demand clause but shown in current liabilities: | | |
| After 1 year, but within 2 years | \$ 676,286 | \$ 561,671 |
| After 2 years, but within 5 years | 455,607 | 358,564 |
| After 5 years | 2,195,613 | 1,527,443 |
| | <u>\$ 3,327,506</u> | <u>\$ 2,447,678</u> |
| | <u>\$ 3,689,240</u> | <u>\$ 2,750,024</u> |

With respect to all of the above referenced debt and credit arrangements in Note 7 and Note 8, the Company pledged its assets to a bank group in Hong Kong comprised of DBS Bank (formerly Overseas Trust Bank Limited) and BEA Bank, as collateral 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 \$705,641 (HK\$5,504,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic, a wholly owned subsidiary of ACL, a security interest on a residential property located in Hong Kong owned by City, a related party, a workshop located in Hong Kong owned by Solution, a related party, a security interest on two residential properties located in Hong Kong owned by Aristo, a company wholly owned by Mr. Yang, plus a personal guarantee by Mr. Yang as collateral for loans from DBS Bank;
2. a fixed cash deposit of \$1,383,400 (HK\$10,790,522), a workshop located in Hong Kong owned by Systematic Information, a related party, 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 BEA Bank;

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. INCOME TAXES

Income tax expense amounted to \$197,422 for 2011 and \$389,415 for 2010 (an effective rate of 15.4% for 2011 and 17% for 2010). 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>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Computed tax at federal statutory rate | \$ | \$ 789,710 |
| Tax rate differential on foreign earnings of Atlantic and Aristo, Hong Kong based companies | 34,682 | (564,400) |
| Unrecognized timing difference | | (26,036) |
| Tax under provision for Atlantic | 43,576 | 85,339 |
| Net operating loss carry forward | 119,164 | 104,802 |
| | <u>\$ 197,422</u> | <u>\$ 389,415</u> |

The income tax provision consists of the following components:

| | <u>2011</u> | <u>2010</u> |
|---------|-------------------|-------------------|
| Federal | \$ | \$ |
| Foreign | 119,164 | 389,415 |
| | <u>\$ 119,164</u> | <u>\$ 389,415</u> |

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

| | <u>2011</u> | <u>2010</u> |
|---------------------------|--------------|--------------|
| Net operating losses | \$ 1,483,680 | \$ 1,364,516 |
| Total deferred tax assets | \$ 1,483,680 | \$ 1,364,516 |
| Less: valuation allowance | (1,483,680) | (1,364,516) |
| | <u>\$</u> | <u>\$</u> |

The Company did not have any interest and penalty recognized in the income statements for the year ended December 31, 2011 and 2010 or balance sheet as of December 31, 2011 and 2010. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2009, 2010, and 2011 U.S. Corporation Income Tax Return are subject to U.S. Internal Revenue Service examination and the Company's 2005/6, 2006/7, 2007/8, 2008/9, 2009/2010, 2010/11, and 2011/12 Hong Kong Corporations Profits Tax Return filing are subject to Hong Kong Inland Revenue Department examination.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. 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, 2011 and 2010 since there were no outstanding options at December 31, 2011 and 2010.

NOTE 11. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

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 February 28, 2011. Samsung has confirmed this agreement will be renewed for a period of 3 to 6 months whilst such an agreement is being entered into with ATMD.

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 45% and 49%, of materials from Samsung for the years ended December 31, 2011 and 2010, 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 8 for details for Mr. Yang's support of the Company's banking facilities. At December 31, 2011 and 2010, included in accounts payable were \$19,739,060 and \$18,390,890, respectively, to Samsung. Termination of such distributorship by Samsung will significantly impair and adversely affect the continuation of the Company's business.

NOTE 12. 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 \$34,906 for 2011 and \$33,564 for 2010.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. 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, 2011:

| Year ending December 31, | Related parties | Others | Total |
|--------------------------|-----------------|-------------------|-------------------|
| 2012 | \$ | \$ 198,353 | \$ 198,353 |
| 2013 | | 153,040 | 153,040 |
| Thereafter | | 126,923 | 126,923 |
| Total | \$ | \$ 478,316 | \$ 478,316 |

See Note 6 for related party leases. All leases expire prior to November 30, 2014. 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 2011. Rent expense for the years ended December 31, 2011 and 2010 totaled \$241,699 and \$267,139, respectively.

NOTE 14. DERIVATIVE INSTRUMENTS

On February 1, 2009, the Company adopted ASC 815 (formerly SFAS No. 161) as referenced in Note 2. The adoption of ASC 815 requires additional disclosures about Company's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items under ASC 815 (formerly SFAS No. 133), Accounting for Derivative Instruments and Hedging Activities, 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.

As of December 31, 2011, the Company does not have any outstanding foreign currency exchange agreements. All foreign currency exchange agreements matured before April 1, 2010.

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the year ended December 31, 2011 and 2010 was as follows:

| Location | Gain recognized in income on derivative | |
|--|---|-----------|
| | Year ended December 31, 2011 | 2010 |
| Cash flow hedges: | | |
| Foreign exchange contracts US\$500,000 (HKD/USD) | Interest and other, net | 1,231 |
| Foreign exchange contracts US\$1,000,000 (HKD/USD) | Interest and other, net | 14,179 |
| Total cash flow hedges | \$ | \$ 15,410 |

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. COMMON STOCK

On August 8, 2011, the Company issued 145,500 common shares for \$56,745 cash.

NOTE 16. SUBSEQUENT EVENTS

In preparing these financial statements, the Company evaluated the events and transactions that occurred from January 1, 2012 through April 16, 2012, the date these financial statements are issued. The Company has made the required additional disclosures in reporting periods in which subsequent events occur.

On February 9, 2012 the Company entered into a memorandum of understanding with an independent third party that is a successful trader and procurement network specialist of memory products. An acquisition is expected within 60 days upon the completion of a satisfactory due diligence exercise.

On March 9, 2012 the Company entered into an agreement with Tomen Devices to create a joint venture. For more information on the joint venture, please see, Part I, Item 1, Business of this report.

As discussed in Note 11 of the consolidated financial statements, the Company is dependent on a single vendor to supply the majority of its inventories. This vendor accounted for the majority of the Company's purchases for 2011. The Company's non-exclusive distributorship agreement with this vendor has a one-year term. This agreement has been renewed more than ten times, most recently on March 1, 2011 and expired on February 28, 2012. The Company and the vendor have agreed that a non-exclusive distributorship agreement shall be issued to ATMD. Documents formalizing this agreement are being prepared. The Company's distributorship agreement shall be extended for a period of 3 to 6 months to facilitate the transfer of operations to ATMD. Termination of such distributorship agreement by this vendor would have a material adverse effect on the operations of the Company.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

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.

SCHEDULE III

QUARTERLY INFORMATION (UNAUDITED)

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.

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