

ACL SEMICONDUCTORS INC
Form 10-K/A
April 20, 2012

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

**FORM 10-K/A
Amendment No. 1**

b 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

o 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

(Title of class)

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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.

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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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

EXPLANATORY NOTE

This Amendment No. 1 (the **Amendment**) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the **Original Filing**), which was filed with the U.S. Securities and Exchange Commission (the **SEC**) on April 16, 2012, is being filed to amend and restate our audit report (the **Original Audit Report**), contained in the Original Filing, to revise certain typographical errors included in the Original Audit Report and accordingly, to amend and restate our Index to Exhibits and XBRL (eXtensible Business Reporting Language) interactive data files required by Rule 405 of Regulation S-T and Item 601 of Regulation S-K. Our amended audit report (the **Amended Audit Report**), is included in this Amendment.

Pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to contain currently-dated certifications from our principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our principal executive officer and our principal financial officer are attached to this form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

Other than as described above, this Amendment No. 1 makes no other changes to the Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 16, 2012.

ALBERT WONG & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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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 20, 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		\$ 672,819	\$ 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	6	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	<u>\$ (9,945,170)</u>	<u>\$ (39,852)</u>
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	<u>\$ 6,233,947</u>	<u>\$ (2,640,845)</u>

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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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 20, 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>
/s/ Chung-Lun Yang _____ Chung-Lun Yang	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	April 20, 2012
/s/ Kun Lin Lee _____ Kun Lin Lee	Chief Financial Officer (Principal Financial and Accounting Officer) and Director	April 20, 2012
/s/ Kenneth Lap Yin Chan _____ Kenneth Lap Yin Chan	Chief Operating Officer and Director	April 20, 2012
/s/ Man Sing Lai _____ Man Sing Lai	Director	April 20, 2012
/s/ Ho Man Yeung _____ Ho Man Yeung	Director	April 20, 2012
/s/ Hung Ming Joseph Chu _____ Hung Ming Joseph Chu	Director	April 20, 2012
/s/ Wing Sun Leung _____ Wing Sun Leung	Director	April 20, 2012

INDEX TO EXHIBITS

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

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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.
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- 21.1 Subsidiaries of the Company, incorporated by reference to Exhibit 21.1 to the Form 10-K/A filed with the Securities and Exchange Commission on April 22, 2010.
- 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

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101.SCH XBRL Taxonomy Extension Schema Document

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101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

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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).
