

ACL SEMICONDUCTOR INC  
Form 10-Q  
May 14, 2008

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

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

Commission File Number: 000-50140

**ACL Semiconductors Inc.**  
(Name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation)

**16-1642709**  
(I.R.S. Employer  
Identification No.)

**B24-B27,1/F., Block B**  
**Proficient Industrial Centre, 6 Wang Kwun Road**  
**Kowloon, Hong Kong**  
(Address of principal executive offices)

**011-852- 2799-1996**  
(Registrant's telephone number)  
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of [ ] accelerated filer and large accelerated filer [ ] in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the common stock, \$.001 par value, as of May 13, 2008:

28,329,936

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**ITEM 1. FINANCIAL STATEMENTS.**

**ACL SEMICONDUCTORS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	As of March 31, 2008 (Unaudited)	As of December 31, 2007
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,249,301	\$ 1,597,674
Restricted cash	3,703,057	4,203,057
Accounts receivable, net of allowance for doubtful accounts of \$0 for 2008 and 2007	14,002,641	7,594,784
Accounts receivable, related parties	8,017,280	7,955,764
Inventories, net	3,619,692	3,483,994
Restricted marketable securities	1,269,231	769,231
Marketable securities	200,896	404,780
Income tax refundable	49,375	49,375
Other current assets	45,929	83,061
<b>Total current assets</b>	<b>32,157,402</b>	<b>26,141,720</b>
<b>Property, equipment and improvements, net of accumulated depreciation and amortization</b>	<b>6,965,947</b>	<b>6,933,998</b>
<b>Other deposits</b>	<b>385,284</b>	<b>387,245</b>
	<b>\$ 39,508,633</b>	<b>\$ 33,462,963</b>

The accompanying notes are an integral part of these condensed consolidated financial statements

**ACL SEMICONDUCTORS INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	As of March 31, 2008 (Unaudited)	As of December 31, 2007
<b>Current liabilities:</b>		
Accounts payable	\$ 19,538,162	\$ 12,592,685
Accrued expenses	207,194	186,738
Lines of credit and notes payable	15,312,231	15,610,488
Current portion of long-term debt	194,227	180,228
Due to stockholders for converted pledged collateral	112,385	112,385
Other current liabilities	199,635	268,573
Total current liabilities	35,563,834	28,951,097
Long-term debts, less current portion	2,527,350	2,589,213
Deferred tax	15,471	15,471
	38,106,655	31,555,781
<b>Commitments and contingencies</b>	-	-
<b>Stockholders' equity:</b>		
Common stock - \$0.001 par value, 50,000,000 shares authorized, 28,329,936 issued and outstanding	28,330	28,330
Additional paid in capital	3,593,027	3,593,027
Amount due from stockholder/director	20,578	(75,998)
Accumulated deficit	(2,239,957)	(1,638,177)
Total stockholders' equity	1,401,978	1,907,182
	\$ 39,508,633	\$ 33,462,963

The accompanying notes are an integral part of these condensed consolidated financial statements

**ACL SEMICONDUCTORS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2008</b>	<b>2007</b>
<b>Net sales:</b>		
Related parties	\$ 1,764,493	\$ 3,268,623
Other	51,144,014	28,781,984
Less discounts to customers	-	(15,240)
	52,908,507	32,035,367
<b>Cost of sales</b>	52,388,336	31,148,138
<b>Gross profit</b>	520,171	887,229
<b>Operating expenses:</b>		
Selling	17,777	17,467
General and administrative	774,797	600,441
<b>(Loss) income from operations</b>	(272,403)	269,321
<b>Other income (expenses):</b>		
Rental income	22,308	-
Interest expense	(223,827)	(231,566)
Unrealized loss on marketable securities	(203,883)	-
Miscellaneous	76,025	45,093
<b>(Loss) income before income taxes</b>	(601,780)	82,848
<b>Income taxes</b>	-	16,998
<b>Net (loss) income</b>	\$ (601,780)	\$ 65,850
<b>(Loss) earnings per share - basic and diluted</b>	\$ (0.02)	\$ 0.00
<b>Weighted average number of shares - basic and diluted</b>	28,329,936	27,829,936

The accompanying notes are an integral part of these condensed consolidated financial statements

**ACL SEMICONDUCTORS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**(Unaudited)**

	Three months ended	
	March 31, 2008	March 31, 2007
<b>Cash flows provided by (used for) operating activities:</b>		
Net (loss) income	\$ (601,780)	\$ 65,850
<b>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</b>		
Depreciation and amortization	76,180	40,208
Change in inventory reserve	-	38,461
<b>Changes in assets and liabilities:</b>		
<b>(Increase) decrease in assets</b>		
Accounts receivable - other	(6,407,857)	487,717
Accounts receivable - related parties	(61,516)	(700,636)
Inventories	(135,698)	(320,677)
Other current assets	37,132	(193,116)
Deposits	1,961	(5,215)
<b>Increase (decrease) in liabilities</b>		
Accounts payable	6,945,477	1,946,329
Accrued expenses	20,456	(33,782)
Income tax payable	-	(12,643)
Other current liabilities	(68,937)	(157,410)
Total adjustments	407,198	1,089,236
Net cash provided by (used for) operating activities	(194,582)	1,155,086
<b>Cash flows used for investing activities:</b>		
Advance from (to) stockholders	96,576	(275,881)
Decrease (Increase) of restricted cash	500,000	(1,376,923)
Investment in Securities (Restricted)	(500,000)	(769,231)
Investment in Securities	203,883	-
Purchases of property, equipment and improvements	(108,129)	(86,724)
Net cash provided by (used for) investing activities	192,330	(2,508,759)

The accompanying notes are an integral part of these condensed consolidated financial statements

**ACL SEMICONDUCTORS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**(Unaudited)**

	Three Months Ended	
	March 31, 2008	March 31, 2007
<b>Cash flows provided by financing activities:</b>		
Proceeds on lines of credit and notes payable	(298,257)	1,214,227
Principal (payments) loan on long-term debt	(47,864)	15,673
Net cash provided by financing activities	(346,121)	1,229,900
<b>Net decrease in cash and cash equivalents</b>	<b>(348,373)</b>	<b>(123,773)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>1,597,674</b>	<b>1,447,486</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 1,249,301</b>	<b>\$ 1,323,713</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 223,827	\$ 231,566
Income tax paid	\$ -	\$ 29,640

The accompanying notes are an integral part of these condensed consolidated financial statements



**ACL SEMICONDUCTORS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. Basis of Presentation and Nature of Business Operations**

**Basis of Presentation**

The condensed consolidated financial statements include the financial statements of ACL Semiconductors Inc. and its subsidiaries, Atlantic Components Ltd. and Alpha Perform Technology Limited (collectively, "ACL" or the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited financial statements for the fiscal years ended December 31, 2007, 2006 and 2005 included in the Company's Annual Report on the Form 10-K for the period ended December 31, 2007 filed with the Securities Exchange Commission on April 16, 2008. In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the consolidated financial position of ACL as of March 31, 2008 and December 31, 2007, and the results of operations for the three-month periods ended March 31, 2008 and 2007 and the cash flows for the three-month periods ended March 31, 2008 and 2007. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results which may be expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated in preparation of the condensed consolidated financial statements.

**Nature of Business Operations**

ACL Semiconductors Inc. ("Company" or "ACL") was incorporated under the State of Delaware on September 17, 2002. Through a reverse-acquisition of Atlantic Components Ltd., a Hong Kong based company, effective September 30, 2003, the Company's principal activities are distribution of electronic components under the "Samsung" brandname which comprise DRAM and graphic RAM and FLASH for the Hong Kong and Southern China markets. Atlantic Components Ltd., its wholly owned subsidiary, was incorporated in Hong Kong on May 30, 1991 with limited liability. On October 2, 2003, the Company set up a wholly-owned subsidiary, Alpha Perform Technology Limited ("Alpha"), a British Virgin Islands company, to provide services on behalf of the Company in jurisdictions outside of Hong Kong. Effective January 1, 2004, the Company has ceased the operations of Alpha and all the related activities are consolidated with those of Atlantic.

**Revenue Recognition**

Product sales are recognized when products are shipped to customers, title passes and collection is reasonably assured. Provisions for discounts to customers, estimated returns and allowances and other price adjustments are provided for in the same periods the related revenue is recorded which are deducted from the gross sales.

**Currency Reporting**

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

For the purpose of preparing these consolidated financial statements, the financial statements of ACL reported in HKD have been translated into U.S. Dollars at US\$1.00=HKD7.8, a fixed exchange rate maintained between the United States and China.



## **2. Earnings Per Common Share**

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

## **3. Related Party Transactions**

### **Transactions with Mr. Yang**

As of March 31, 2008 and December 31, 2007, the Company had an outstanding receivable from Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, totaling \$0 and \$75,998, respectively.

For the three months ended March 31, 2008 and 2007, the Company recorded and paid \$180,026 and \$119,231, respectively, to Mr. Yang as compensation.

During the three months ended March 31, 2008 and 2007, the Company paid rent of \$0 and \$9,615, respectively, for Mr. Yang's personal residency as additional compensation.

### **Transactions with Classic Electronics Ltd.**

As of March 31, 2008 and December 31, 2007, the Company had outstanding accounts receivable from Classic Electronics Ltd. ("Classic") totaling \$6,709,495 and \$6,709,495, respectively. The Company has not experienced any bad debt from this customer in the past. Pursuant to a written personal guarantee agreement, Mr. Yang personally guarantees all the outstanding accounts receivable from Classic up to \$10 million of accounts receivable.

Mr. Wong, a director of the Company, is a 99.9% shareholder of Classic. The remaining 0.1% of Classic is owned by a non-related party.

### **Transactions with Solution Semiconductor (China) Ltd**

During the three months ended March 31, 2008 and 2007, the Company received management fees of \$3,846, respectively, from Solution Semiconductor (China) Ltd. ("Solution"). There were no outstanding accounts receivable due from Solution as of March 31, 2008 and December 31, 2007. The management fee was charged as the back office support to Solution.

On April 01, 2007, the Company entered into a lease agreement with Solution pursuant to which the Company leases one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is \$1,090. The Company incurred and paid an aggregate rent expense of \$3,270 and \$2,577 to Solution during the three months ended March 31, 2008 and 2007.

Mr. Wong, a director of the Company, is a 99% shareholder of Solution. The remaining 1% of Solution is owned by a non-related party.

### **Transactions with Systematic Information Ltd.**

During the three months ended March 31, 2008 and 2007, the Company received service fees of \$3,846, respectively, from Systematic Information Ltd. ("Systematic Information"). There were no outstanding accounts

receivable due from Systematic Information as of March 31, 2008 and December 31, 2007. The service fee was charged as the back office support to Systematic Information.

On April 1, 2005, the Company entered into a lease agreement with Systematic Information pursuant to which the Company leases one residential property for Mr. Yang's personal use for a monthly lease payment of \$3,205. Upon expiration of the lease on June 15, 2007, ACL acquired this residential property from Systematic Information. The Company incurred and paid an aggregate rent expense of \$0 and \$9,615 to Systematic Information during the three months ended March 31, 2008 and 2007.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from Standard Chartered Bank (Hong Kong) Limited.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and the shareholder of Systematic with a total of 100% interest.

**Transactions with Global Mega Development Ltd.**

During the three months ended March 31, 2008 and 2007, we received management fees of \$0 and \$1,923, respectively, from Global Mega Development Ltd. (["Global"]). There were no outstanding accounts receivable due from Global as of March 31, 2008 and December 31, 2007. The management fee was charged as the back office support to Global.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Global.

**Transactions with Intelligent Network Technology Ltd.**

During the three months ended March 31, 2008 and 2007, the Company received management fees of \$0 and \$1,923, respectively, from Intelligent Network Technology Ltd. (["Intelligent"]). There were no outstanding accounts receivable due from Intelligent as of March 31, 2008 and December 31, 2007. The management fee was charged as the back office support to Intelligent.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and 80% shareholder of Intelligent. The remaining 20% of Intelligent is owned by a non-related party.

**Transactions with Systematic Semiconductor Ltd.**

During the three months ended March 31, 2008 and 2007, the Company received management fees of \$0 and \$3,846, respectively, from Systematic Semiconductor Ltd. (["Systematic Semiconductor"]). There were no outstanding accounts receivable due from Systematic Semiconductor as of March 31, 2008 and December 31, 2007.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Systematic Semiconductor.

**Transactions with Aristo Technologies Ltd.**

During the three months ended March 31, 2008 and 2007, the Company sold \$1,764,493 and \$3,268,623, respectively, to Aristo Technologies Ltd. (["Aristo"]). Outstanding accounts receivable due from totaled \$6,317,675 and \$6,237,905 as of March 31, 2008 and December 31, 2007, respectively. The Company has not experienced any bad debt from this customer in the past.

During the three months ended March 31, 2008 and 2007, the Company purchased \$7,117,103 and \$561,717, respectively, from Aristo. Outstanding accounts payable due to Aristo totaled \$18,254 and \$0 as of March 31, 2008 and December 31, 2007 respectively.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Aristo.

#### **4. Bank Facilities**

With respect to all of the above referenced debt and credit arrangements, the Company pledged its assets as collateral collectively to a bank group in Hong Kong comprised of, DBS Bank (Hong Kong) Ltd. (formerly Overseas Trust Bank Limited), Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia Ltd., Citic Ka Wah Bank Limited and Hang Seng Bank Limited for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. a fixed cash deposit of \$641,026 (HK\$5,000,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic Components Ltd ("Atlantic"), a wholly owned subsidiary of ACL plus personal guarantee by Mr. Yang as collateral for loans from DBS Bank (Hong Kong) Ltd;
2. a fixed cash deposit of \$1,323,570 (HK\$10,323,842) plus unlimited personal guarantee by Mr. Yang, as collateral for loans from The Bank of East Asia, Limited;
3. a cash deposit/securities not less than \$1,282,051 (HK\$10,000,000), a security interest on workshop located in Hong Kong owned by Systematic Information, a related party, a security interest on workshop located in Hong Kong owned by Solution, a related party, plus unlimited personal guarantee by Mr. Yang as collateral for loans from Standard Chartered Bank (Hong Kong) Limited;
4. a cash deposit not less than \$956,410 (US\$700,000 plus HK\$2,000,000), a security interest on workshop located in Hong Kong owned by Solution, a related party plus personal guarantee by Mr. Yang as collateral for loans from Citic Ka Wah Bank Limited; and
5. marketable securities of \$769,231 (HK\$6,000,000) plus unlimited personal guarantee by Mr. Yang as collateral for loans from Hang Seng Bank Limited.

#### **5. Economic Dependence**

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 Samsung Electronics H.K. Co., Ltd. ("Samsung HK"), a subsidiary of Samsung Electronics Co., Ltd., a Korean public company, pursuant to a distributorship agreement between the Company and Samsung HK (the "Distribution Agreement"). Samsung HK supplied approximately 49% and 74% of materials to the Company for the three months ended March 31, 2008 and 2007, respectively. The Distribution Agreement has a one-year term and contains certain sales quotas to be met by the Company. The Distribution Agreement has been renewed more than ten times, most recently on March 1, 2008. The Company has never failed to meet the sales quotas set forth in the Distribution Agreement, however, there is no assurance that Samsung HK 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.

For the 3 months ended 2008 and 2007, the Company purchased \$25,899,052 and \$23,667,179, respectively, of components from Samsung HK. At March 31, 2008 and December 2007, the Company's accounts payable, net of rebate receivable, due from Samsung totaled \$9,696,471 and \$9,562,198, respectively.

## **6. 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.

## **7. 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 business. The Plan permits us to grant both incentive stock options ("Incentive Stock Options" or "ISOs") with the meaning of Section 422 of 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.

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

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

## **8. Recently Issued Accounting Pronouncements**

In February 2008, the FASB issued FSP FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises". This FASB Staff Position (FSP) defers the effective date of FASB Interpretation No. 48,



□Accounting for Uncertainty in Income Taxes□, for certain nonpublic enterprises as defined in paragraph 289, as amended, of FASB Statement No. 109, □Accounting for Income Tax□s, including nonpublic not-for-profit organizations. This FSP shall be effective upon issuance. The Company does not anticipate that this new FSP will have any material impact upon its financial condition or results of operations.

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

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

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

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

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

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, □The Hierarchy of Generally Accepted Accounting Principles□ (□SFAS No.162□). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting



principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With General Accepted Accounting Principles". The Company does not anticipate that SFAS No. 162 will have any material impact upon its preparation of its financial statements.

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

## **9. Reclassification**

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

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE COMPANY HAS INCLUDED IN THIS QUARTERLY REPORT CERTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 CONCERNING THE COMPANY'S BUSINESS, OPERATIONS AND FINANCIAL CONDITION. "FORWARD-LOOKING STATEMENTS" CONSIST OF ALL NON-HISTORICAL INFORMATION, AND THE ANALYSIS OF HISTORICAL INFORMATION, INCLUDING THE REFERENCES IN THIS QUARTERLY REPORT TO FUTURE REVENUE GROWTH, FUTURE EXPENSE GROWTH, FUTURE CREDIT EXPOSURE EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION, FUTURE PROFITABILITY, ANTICIPATED CASH RESOURCES, ANTICIPATED CAPITAL EXPENDITURES, CAPITAL REQUIREMENTS, AND THE COMPANY'S PLANS FOR FUTURE PERIODS. IN ADDITION, THE WORDS "COULD", "EXPECTS", "ANTICIPATES", "OBJECTIVE", "PLAN", "MAY AFFECT", "MAY DEPEND", "BELIEVES", "ESTIMATES", "PROJECTS" AND SIMILAR WORDS AND PHRASES ARE ALSO INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS.

ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE COMPANY'S FORWARD-LOOKING STATEMENTS DUE TO NUMEROUS KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, INCLUDING, AMONG OTHER THINGS, UNANTICIPATED TECHNOLOGICAL DIFFICULTIES, THE VOLATILE AND COMPETITIVE ENVIRONMENT FOR COMPUTER AND CONSUMER ELECTRONIC PRODUCTS, CHANGES IN DOMESTIC AND FOREIGN ECONOMIC, MARKET AND REGULATORY CONDITIONS, THE INHERENT UNCERTAINTY OF FINANCIAL ESTIMATES AND PROJECTIONS, THE UNCERTAINTIES INVOLVED IN CERTAIN LEGAL PROCEEDINGS, INSTABILITIES ARISING FROM TERRORIST ACTIONS AND RESPONSES THERETO, AND OTHER CONSIDERATIONS DESCRIBED AS "RISK FACTORS" IN OTHER FILINGS BY THE COMPANY WITH THE SEC INCLUDING ITS ANNUAL REPORT ON FORM 10-K. SUCH FACTORS MAY ALSO CAUSE SUBSTANTIAL VOLATILITY IN THE MARKET PRICE OF THE COMPANY'S COMMON STOCK. ALL SUCH FORWARD-LOOKING STATEMENTS ARE CURRENT ONLY AS OF THE DATE ON WHICH SUCH STATEMENTS WERE MADE. THE COMPANY DOES NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH ANY SUCH STATEMENT IS MADE OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

ANY REFERENCE TO "ACL", THE "COMPANY" OR THE "REGISTRANT", "WE", "OUR" OR "US" MEANS ACL SEMICONDUCTORS INC. AND ITS SUBSIDIARIES.

### Overview

#### Corporate Background

The Company, through its wholly-owned subsidiary Atlantic Components Limited, a Hong Kong corporation (["Atlantic"]) is engaged primarily in the business of distribution of memory products under ["Samsung"] brandname which principally comprise DRAM, Graphic RAM and FLASH for the Hong Kong and Southern China markets. The Company's wholly-owned subsidiary, Alpha Perform Technology Limited (["Alpha"]), which previously engaged in this business, ceased activities as of January 1, 2004, when its operations were consolidated with those of Atlantic.

As of March 31, 2008, ACL had more than 120 active customers in Hong Kong and Southern China.

ACL is in the mature stage of operations. As a result, the relationships between sales, cost of sales, 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 financial statements are recurring in nature.

### 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, ACL's most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; policies for revenue recognition, allowance for doubtful accounts, and stock-based compensation. The methods, estimates and judgments ACL uses in applying these most critical accounting policies have a significant impact on the results ACL reports in its consolidated financial statements.

*Inventory Valuation.* Our policy is to value inventories at the lower of cost or market on a part-by-part basis. This policy requires us to make estimates regarding the market value of our inventories, including an assessment of excess or obsolete inventories. We determine excess and obsolete inventories based on an estimate of the future demand for our products within a specified time horizon, generally 12 months. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with our revenue forecasts. If our demand forecast is greater than our actual demand we may be required to take additional excess inventory charges, which will decrease gross margin and net operating results in the future.

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

### Contractual Obligations

The following table presents the Company's contractual obligations as of March 31, 2008 over the next five years and thereafter:

	Payments by Period				
	<u>Amount</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
Operating Leases	142,459	89,125	53,334	---	---
Line of credit and notes payable					
short-term	15,312,231	15,312,231	---	---	---
Short Term Loan	183,833	183,833			
Long Term Loan	2,721,577	194,227	352,275	254,745	1,920,330
Total Contractual Obligations	\$ 18,360,100	\$ 15,779,416	\$ 405,609	\$ 254,745	\$ 1,920,330

### Accounting Principles; Anticipated Effect of Growth

Below is a brief description of basic accounting principles which the Company has adopted in determining its recognition of sales and expenses, as well as a brief description of the effects that the Company believes its anticipated growth will have on the Company's sales and expenses in the next 12 months.



*Net sales*

Sales from Samsung HK are recognized upon the transfer of legal title of the electronic components to the customers. The quantities of memory products the Company sells fluctuate with changes in demand from its customers. The prices set by Samsung HK that the Company must charge its customers are expected to fluctuate as a result of prevailing economic conditions and their impact on the market.

Sales for the three months ended March 31, 2008 increased 65% compared to the three months ended March 31, 2007. One of the major reasons of the Company's sales increases is the Company successfully opens up new customers, specially in consumer electronics products (OEM/ODM) manufacturers in PRC. Another major reason of this increase is Samsung rival Hynix had reduced its production capacity, which led to more demand on Samsung's products.

The gross profit margin for the Company during the three months ended March 31, 2008 was 0.98%, compared to a 2.77% for the corresponding quarter in 2007. The Company's gross profit for the three months ended March 31, 2008 was \$520,171, as compared to \$887,229 for the three months ended March 31, 2007, representing a 41% decrease. The decrease was primarily attributable to a promotional campaign that the Company had with Samsung. The goal of this campaign is to expand Samsung's market share and capture more market segments from Hard Disk Device (HDD)-based consumer electronics to use high density (4 gigabytes (GB) and above) flash by lowering the prices. Samsung promised to allocate our gross profit marginal loss caused by this event within one year.

Although the Company's gross profit decreased in the three months ended March 31, 2008, the Company anticipates its profitability will increase in the second half of 2008. The Company forecasts secured orders from the customers, which will stabilize the Company's turnover as well as the commission from Samsung in the second half of 2008. Analysts pointed out that the launch of Apple's new third generation (3G) mobile phone in the second half of 2008 will bring up the flash demand. The Olympic Games in August will also increase the demand on consumer electronics products. I.e. digital recording devices, digital cameras, set top box, memory cards, etc. These consumer electronics products will bring up the demand of the two major memory components - DRAM and NAND flash.

*Cost of sales*

Cost of sales consists of costs of goods purchased from Samsung HK, and purchases from other Samsung authorized distributors. Many factors affect the Company's gross margin, including, but not limited to, the volume of production orders placed on behalf of its 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 situations. Nevertheless, the Company's procurement operations are supported by Samsung HK pursuant to a distributorship agreement between the Company and Samsung HK. However, the distributorship is for a one year period and even though it has been renewed more than 10 times there is no assurance that it will be in the future.

*Operating expenses*

The Company's operating expenses for the three months ended March 31, 2008 and 2007 were comprised of sales and marketing and general and administrative expenses only.

Sales and marketing expenses consisted primarily of and external commissions paid to external sales personnel and costs associated with advertising and marketing activities.

General and administrative expenses include all corporate and administrative functions that serve to support the Company's 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. The Company expects these expenses to increase as a result of increased legal and accounting fees anticipated in connection with the Company's compliance with ongoing reporting and accounting requirements of the Securities and Exchange Commission and as a result of anticipated expansion by the Company of its business operations. Sales and marketing expenses are expected to fluctuate as a percentage of sales due to the addition of sales personnel and various marketing activities planned throughout the year.

Interest expense, including finance charges, relates primarily to Atlantic's short-term and long-term bank borrowings, which the Company intends to reduce.

### *Results of Operations*

The following table sets forth unaudited statements of operations data for the three months ended March 31, 2008 and 2007 and should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's financial statements and the related notes appearing elsewhere in this document.

	For the Three Months Ended March 31,	
	(US\$) (Unaudited)	
	<u>2008</u>	<u>2007</u>
Net sales	100%	100%
Cost of sales	99.02%	97.23%
Gross profit	0.98%	2.77%
Operating expenses:		
Sales and marketing	0.03%	0.05%
General and administrative	1.46%	1.88%
Total operating expenses	1.49%	1.93%
Loss/income from operations	-0.51%	0.84%
Other expenses:		
Interest expenses	-0.42%	-0.72%
Miscellaneous	-0.20%	0.14%
Total other expenses	-0.62%	-0.58%
Income taxes	0.00%	0.05%
Net loss/income	-1.13%	0.21%

### **Unaudited Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007**

#### *Net sales*

Sales increased by \$20,873,140 or 65.1% from \$32,035,367 in the three months ended March 31, 2007 to \$52,908,507 in the three months ended March 31, 2008. The increase was mainly due to the Company successfully acquiring new customers, specifically in consumer electronics products (OEM/ODM) manufacturers in PRC. Another major reason is Samsung rival Hynix had reduced its production capacity, which led to more demand on Samsung's products.

#### *Cost of sales*

Cost of sales increased by \$21,240,198, or 68.2%, from \$31,148,138 for the three months ended March 31, 2007 to \$52,388,336 for the three months ended March 31, 2008. The increase in cost of sales is in proportion



to the increase in net sales stated above. As a percentage of sales, cost of sales increased to 99% of sales in the three months ended March 31, 2008 from 97.2% of sales in the three months ended March 31, 2007.

*Gross profit*

Gross profit decreased by \$367,058 or 41.4%, from \$887,229 for the three months ended March 31, 2007 to \$520,171 for the three months ended March 31, 2008. The decrease in gross profits resulted primarily attributable to a promotional campaign that the Company had with Samsung. The goal of this campaign is to expand Samsung's market share and capture more market segments from Hard Disk Device (HDD)-based consumer electronics to use high density (4 gigabytes (GB) and above) flash by lowering the prices.

*Operating expenses*

Sales and marketing expenses slightly increased by \$310 or 1.8%, from \$17,467 for the three months ended March 31, 2007 to \$17,777 for the three months ended March 31, 2008.

General and administrative expenses increased \$174,356 or 29% from \$600,441 in the three months ended March 31, 2007 to \$774,797 in the three months ended March 31, 2008. This increase was principally attributable to an increase in depreciation, director's remuneration and Shengzhen office expenses.

Loss from operations for the Company was \$272,403 for the three months ended March 31, 2008 compared to income of \$269,321 for the three months ended March 31, 2007, representing a decrease of income by \$541,724 or 201%. This decrease was the result of decrease of gross profit during the first quarter of 2008.

*Other income (expenses)*

Interest expense decreased by \$7,739, or 3.3%, from \$231,566 in the three months ended March 31, 2007, to \$223,827 in the three months ended March 31, 2008. This decrease was mainly due to a decrease in the Best Lending Interest Rate during the period.

Unrealized loss on marketable securities increased by \$203,883 from \$0 in the three months ended March 31, 2007, to \$203,883 in the three months ended March 31, 2008. The increase was mainly attributable to the increase in the market value as of March 31, 2008 over the cost of purchase of certain securities on hand.

The Company's net income decreased by \$667,630 or 1014% from \$65,850 for the three months ended March 31, 2007 to a net loss of \$601,780 for the three months ended March 31, 2008, primarily due to the decrease in gross profit during the first quarter of 2008.

*Income tax*

Income tax decreased by \$16,998 or 100% from \$16,998 for the three months ended March 31, 2007 to \$0 for the three months ended March 31, 2008, primarily due to no taxable income generate during the first quarter of 2008.

**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.

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



limited instances, customers of Atlantic are permitted up to thirty (30) days to make payment for purchased memory products. As the anticipated cash generated by the Company's operations are insufficient to fund our growth requirements, we will need to obtain additional funds. There can be no assurance that the Company's will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. The Company's business growth and prospects would be materially and adversely affected. If it is an equity financing, the holders of our common stock may experience substantial dilution. In addition, if our results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

The following factors, among others, could cause actual results to differ from those indicated in the above forward-looking statements: 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; our ability to attract new customers; an increase in competition in the memory products market; and the ability of some of our customers to obtain financing. These factors or additional risks and uncertainties not known to us or that we currently deems immaterial may impair business operations and may cause our actual results to differ materially from any forward-looking statement.

Although we believe our expectations of future growth are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update its expectation after the date of this report to conform them to actual results or to reflect changes in expectations.

In the three months ended March 31, 2008, net cash used for \$194,582 in operating activities while in the three months ended March 31, 2007, ACL net cash provided by operating activities was \$1,155,086, a decrease of \$1,349,668. This decrease was primarily due to an increase of accounts receivable and payable.

In the three months ended March 31, 2008, net cash provided by investing activities was \$192,330 while in the three months ended March 31, 2007, ACL used for \$2,508,759 in investing activities, an increase of \$2,701,089. This increase was primarily due to the restricted cash and securities held by the bank as collateral for borrowings.

In the three months ended March 31, 2008, net cash used for \$346,121 in financing activities while in the three months ended March 31, 2007, net cash provided by financing activities was \$1,229,900, a decrease of \$1,576,021. This decrease was primarily due to the repayments on bank borrowing.

An essential element of the Company's growth in the future will be to obtain adequate additional working capital to meet anticipated market demand from PC users (business and personal) in the southern part of China.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

ACL is exposed to market risk for changes in interest rates as its bank borrowings accrue interest at floating rates of 0.25% to 0.5% over the Best Lending Rate (currently at the range of 5.25 to 5.75% per annum) prevailing in Hong Kong. For the three months ended March 31, 2008 and the three months ended March 31, 2007, Atlantic did not generate any material interest income (expense). Accordingly, ACL believes that changes in interest rates will not have a material effect on its liquidity, financial condition or results of operations.

#### ***Impact of Inflation***

ACL believes that its results of operations are not significantly impacted by moderate changes in inflation rates as it expects it will be able to pass these costs by component price increases to its customers.

## Seasonality

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

## ITEM 4T. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including Atlantic, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

(a) Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) There have been no significant changes in the Company's internal control over financial reporting during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Although there were no significant deficiencies or material weaknesses, there were some areas where room for improvement was noted and management has committed to improving in these areas.

## PART II

### ITEM 6. EXHIBITS AND REPORTS ON FORM 10-Q

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

No Reports on Form 8-K were filed during the three months ended March 31, 2008 except for:

1. Form 8-K filed March 24, 2008 relating to items 4.01 and 9.01

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACL SEMICONDUCTORS INC.

Date: May 14, 2008

By: Chung-Yun Lang  
Chung-Lun Yang  
Chief Executive Officer

Date: May 14, 2008

By: Kenneth Lap-Yin Chan  
Kenneth Lap-Yin Chan  
Chief Financial Officer