ColorStars Group and ColorStars, Inc.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

FOR THE YEAR ENDED DECEMBER 31, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

To the Board of Directors and Shareholders of ColorStars Group:

I have audited the consolidated balance sheet of ColorStars Group and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits. I did not audit the financial statements of Color Stars Inc., a wholly owned subsidiary, which statements reflect total assets and revenues constituting 99 percent and 100 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for Color Stars Inc., is based solely on the report of the other auditors.

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

In my opinion, based on my audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ColorStars Group as of December 31, 2007 and 2006, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has reported significant losses from operations, had an accumulated deficit, utilized a significant amount of cash from operations, and requires additional financing to fund future operations. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Michael F. Albanese, CPA

Parsippany, New Jersey
June 19, 2008

COLORSTARS GROUP AND COLOR STARS INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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COLORSTARS GROUP AND COLOR STARS INC.
AUDITED CONSOLIDATED BALANCE SHEET
(IN US$)

Assets	December 31, 2007	December 31, 2006
Current assets:		
Cash and equivalents	$462,510	$84,346
Accounts receivable, net of allowance for doubtful accounts of $520 and $59	51,507	5,856
Inventory	149,547	176,526
Prepaid expenses and other current assets	20,935	21,578
Total current assets	684,499	288,306
Equipment, net	43,145	38,964
Intangible assets	20,168	15,181
Other assets	40,221	40,019
Total assets	$788,033	$382,470
Liabilities and stockholders' deficit		
Current liabilities:		
Loan payables	$ -	$82,863
Notes payable	113,672	94,318
Accounts payable	103,567	135,826
Accrued expenses	20,459	17,645
Due to stockholder	551,008	164,933
Receipts in advance	1,773	12,721
Other current liabilities	717	847
Total current liabilities	791,196	509,153
Non-current debt	49,323	-
Total liabilities	840,519	509,153
Stockholders' deficit		
Common Stock –Par Value $0.001 62,000,000 and 48,000,000 shares issued and outstanding at December 31, 2007 and 2006	62,000	48,000
Foreign currency translation adjustment	17,995	17,563
Accumulated deficit	(132,481)	(192,246)
Total stockholders' deficit	(52,486)	(126,683)
Total liabilities and stockholders' deficit	$788,033	$382,470

The accompanying notes are an integral part of the financial statements

COLORSTARS GROUP AND COLOR STARS INC.
AUDITED CONSOLIDATED STATEMENT OF OPERATIONS
(IN US$)

	For the years ended December 31, 2007	2006
Net sales	$1,281,774	$1,178,510
Cost of goods sold	800,860	722,288
Gross profit	480,914	456,222
Operating expenses		
General and administrative	303,088	390,353
Selling	67,334	6,628
Depreciation and amortization	19,860	16,639
Research and development	13,305	80,365
Advertising	14,550	26,480
Total operating expenses	418,137	520,465
Income (loss) from operations	62,777	(64,243)
Other (expenses) income		
Interest expense	(3,694)	(4,854)
Gain on foreign exchange, net	160	1,471
Other	522	7,725
Income (loss) before extra-ordinary loss	59,765	$(59,901)
Extra-ordinary loss	-	(132,345)
Net income (loss)	$59,765	$(192,246)
Earnings (loss) per share		
Basic and diluted per share – before extraordinary item	-	$(0.0014)
Basic and diluted per share – extraordinary item	-	(0.0031)
Basic and diluted per share	$0.0011	(0.0046)
Weighted average shares outstanding:		
Basic and diluted	56,649,972	42,065,753

The accompanying notes are an integral part of the financial statements

COLORSTARS GROUP AND COLOR STARS INC.
AUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(IN US$)

	Capital Stock No. of shares	Value	Foreign Currency Adjustment	Accumulated Deficit	Total Stockholder's Deficit
Balance, April 1, 2006	30,000,000	$30,000	-	-	$30,000
Shares issued for services	18,000,000	18,000	-	-	18,000
Foreign currency adjustment	-	-	17,563	-	17,563
Net loss	-	-	-	(192,246)	(192,246)
Balance, December 31, 2006	48,000,000	48,000	17,563	(192,246)	(126,683)
Shares issued	14,000,000	14,000	-	-	14,000
Foreign currency adjustment	-	-	432	-	432
Net income	-	-	-	59,765	59,765
Balance, December 31, 2007	62,000,000	$62,000	$17,995	$(132,481)	$(52,486)

The accompanying notes are an integral part of the financial statements

COLORSTARS GROUP AND COLOR STARS INC.
AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN US$)

	For the years ended December 31, 2007	2006
Cash flows from operating activities		
Net income (loss)	$59,765	$(192,246)
Extra-ordinary loss	-	132,345
Depreciation and amortization	19,860	16,639
Stock issued for services	-	18,000
Provision for doubtful accounts	1,539	-
Loss on uncollectible accounts	-	2,466
Changes in operating assets and liabilities:		
Accounts receivable	(47,190)	(4,034)
Inventories	26,979	(116,392)
Prepaid expenses and other current assets	441	(9,022)
Accounts payable	(32,259)	(13,045)
Accrued expenses	2,814	6,169
Receipts in advance	(10,948)	7,752
Other current liabilities	(130)	239
Cash flows (used in) operating activities	20,871	(151,129)
Cash flows from investing activities		
Additions to fixed assets	(22,477)	(19,103)
Addition to intangible assets	(9,844)	(17,394)
Proceed from sale of fixed asset	3,222	-
Cash flow (used in) investing activities	(29,099)	(36,497)
Cash flows from financing activities		
Increase in notes payable	19,354	86,647
Financing proceeds from stockholder	386,075	129,192
Issue of capital	14,000	-
Repayment of bank loan	(33,540)	(8,457)
Cash flow provided by financing activities	385,889	207,382
Effect of exchange rate changes on cash and cash equivalents	503	(3,138)
Net increase in cash and cash equivalents	378,164	16,618
Beginning cash and cash equivalents	84,346	67,728
Ending cash and cash equivalents	$462,510	$84,346
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$3,820	$4,694
Income taxes	58	111

The accompanying notes are an integral part of the financial statements

Note 1 – Nature of Business and Basis of Presentation

Nature of Business – Circletronics Inc., now ColorStars Group (the Company), was incorporated in Canada on January 21, 2005. Circletronics Inc., was redomiciled to Nevada and its name changed to ColorStars Group on November 3, 2005. ColorStars Group owns 100% of the shares of ColorStars Group. The directors of the companies are the same (Wei-Rur Chen, Li Chang and Mei-Ying Chiu).

Color Stars Inc. (the Subsidiary) was incorporated as a limited liability company in Taiwan, Republic of China in April 2003 and commenced its operations in May 2003. The Company is mainly engaged in manufacturing, designing and selling light-emitting diode and lighting equipment.

On February 14, 2006, the Company, a non-operating company, entered into a share exchange agreement with the Subsidiary. The Company issued 30,000,000 shares at par value of $0.001 per share in exchange for all the outstanding shares of the Subsidiary.

The share exchange between the Corporation and the Subsidiary (collectively known as "the Group") did not require an adjustment to the historical basis of the assets and liabilities of Subsidiary. The operational results of the Subsidiary from the period from January 1, 2006 to December 31, 2006 were consolidated into these consolidated financial statements.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Group as a going concern.

Note 2 – Summary of Significant Accounting Policies

Basis of Consolidation – The consolidated financial statements include the accounts of ColorStars Group ("ColorStars") and Color Stars Inc in which ColorStars has a controlling voting interest. All significant intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash on deposits and all short-term highly liquid investments purchased with remaining maturities of three months or less.

Fair Value of Financial Instruments – The carrying amount of cash, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments.

Inventory – Inventory is stated at the lower of cost or market (weighted average method) and as of December 31, 2007 had a value of $149,547 and as of December 31, 2006 had a value of $176,526.

Plant and Equipment – Equipment is recorded at cost. Provision for depreciation is computed using the straight-line method on all depreciable assets over the estimated useful lives of the related assets (five years for machinery equipment, three and half years for transportation equipment and three years for computer and office equipment and other equipment). Upon sale or retirement of assets, the cost and related accumulated depreciation or amortization is eliminated from the respective amounts and any resulting gains or losses are reflected in operations. Expenditures for repairs and maintenance costs are expensed as incurred.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue Recognition – Revenue is recognized in connection with sales of products when all of the following conditions are met: (1) there exists persuasive evidence of an arrangement with the customer, typically consisting of a purchase order or contract; (2) products have been delivered and title and risk of loss has passed to the customer, which occurs when a product is shipped under customary terms; (3) the amount of revenue is fixed or determinable; and (4) collectability is reasonably assured.

The allowance for doubtful accounts for the years ended December 31, 2007 and 2006 were $520 and $59 respectively. The allowance is set up in order to reserve for credit losses as a result of customers' inability to pay.

Advertising costs are expensed as incurred. Advertising costs were $14,550 and $26,480 for the years ended December 31, 2007 and 2006, respectively.

Selling costs were $67,334 and $6,628 for the years ended December 31, 2007 and 2006, respectively.

General and administrative costs were $303,088 and $390,353 for the years ended December 31, 2007 and 2006, respectively.

Research and development costs were $13,305 and $80,365 for the years ended December 31, 2007 and 2006, respectively.

Off-Balance-Sheet Risk and Concentration of Credit Risk – Financial instruments that potentially expose concentrations of credit risk primarily consist of cash and cash equivalents, investments and accounts receivable. Management believes there are no significant off-balance-sheet risks such as those associated with foreign exchange contracts, option contracts or other foreign exchange hedging arrangements. With respect to concentration of credit risk, the Company has cash investment policies which, among other things, limit investments to investment-grade securities. Ongoing credit evaluations of the customers are performed and allowances for potential credit losses maintained.

Geographic Information – Product revenues for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Customers based in:		
Europe	$807,518	$ 931,023
Asia	$320,443	$ 164,991
United States	$153,813	$ 82,496

Foreign Currency – The financial statements of the company's foreign operations are translated into U.S. dollars for financial reporting purposes. The assets and liabilities of foreign operations whose functional currencies are not in U.S. dollars are translated at the period-end exchange rates, while revenues and expenses are translated at weighted-average exchange rates during the fiscal year. The cumulative translation effects are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Intangible Assets – Intangible assets with finite lives are amortized over their respective estimated useful lives. The amount of intangible assets to be amortized shall be the amount initially assigned to that asset less any residual value. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate long-lived described below.

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets Other than Goodwill – Long-lived assets held and used, including intangible assets with finite lives, are tested for recoverability when circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability of long-lived assets is evaluated by comparing the carrying amount of an asset or asset group to management's best estimate of the undiscounted future operating cash flows expected to be generated by the asset or asset group. If these comparisons indicate that the asset or asset group is not recoverable, an impairment loss is recognized for the amount by which the carrying value of the asset or asset group exceeds its fair value. Fair value is determined by quoted market price, if available, or an estimate of projected future operating cash flows, discounted using a rate that reflects the related average operating cost of fund.

Income Taxes – Based upon the Republic of China tax laws deferred tax assets and liabilities are provided based upon the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and for loss and credit carry forwards, using enacted tax rates expected to be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that these assets may not be realized. No provision was made for United States taxes.

Recent Accounting Pronouncements - In December 2007, the Financial Accounting Standard Board (FASB) issued SFAS No.160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and expands disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. The statement also requires consolidated net income to be reported and disclose on the face of the consolidated statement of income at amounts that include the amounts attributable to both the parent and the noncontrolling interest. This Statement establishes decreases in a parent's ownership interest in a subsidiary could be accounted for only equity transactions. The provision of SFAS No.160 is effective beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No.141, "Business Combinations". The statement established the accounting for goodwill and assets and liabilities arising from contingency. It defines a bargain purchase as a business combination. It required the "negative goodwill" amount to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired. Also, the provision require to recognize assets or liabilities arising from all other contingencies as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS No.159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No.159). SFAS No.159 permits companies to choose to measure certain financial instruments and certain other items at fair value. This standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No.159 is effective for the company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted.

Note 2 – Summary of Significant Accounting Policies (continued)

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No.157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The transition adjustment, which is measured as the difference between the carrying amount and the fair value of those financial instruments at the date this statement is initially applied, should be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this statement is initially applied. The provisions of SFAS No.157 are effective for us beginning January 1, 2008.

The management is currently evaluating the impact that the above statements will have on its consolidated financial statements.

Note 3 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of:

	2007	2006
Prepaid Expenses	$9,907	$11,503
VAT paid	11,028	10,075
Total	$20,935	$21,578
Other receivable	$113,322	$113,017
Less: provision for other receivable	(113,322)	(113,017)
Other Assets:		
Deferred tax assets	40,221	40,019
	$40,221	$40,019

Note 4 – Intangible Assets

	2007	2006
Intangible assets:		
Patents	$27,238	$17,394
Accumulated amortization	7,070	2,213
Total	$20,168	$15,181

The intangible assets for patents are amortized over five years and the amortization expense of $4,857 was recorded in the financial statements for the year ended December 31, 2007 and $2,213 for the year ended December 31, 2006.

Note 5 – Equipment

Equipment and the related accumulated depreciation consisted of the following at December 31:

	2007	2006
Plant and equipment:		
Machinery equipment	$23,743	$19,801
Transportation equipment	17,439	11,024
Office equipment	46,808	45,403
Other	217	216
Total cost	88,207	76,444
Accumulated depreciation:		
Machinery equipment	7,805	4,018
Transportation equipment	242	6,414
Office equipment	36,798	26,908
Other	217	140
Total accumulated depreciation	45,062	37,480
Plant and equipment – net	$43,145	$38,964

Depreciation and amortization expense was $19,860 and $16,639 for the years ended December 31, 2007 and 2006, respectively.

Note 6 – Current and Non-current debt

As of December, 2007 there was no current debt on the balance sheet. As of December 31, 2006 current debt was $82,863.

As of December 31, 2007 non-current debt was $49,323 and is due in April 2009. As of December 31, 2006 there was no non-current debt reported on the balance sheet. The average annual interest rate was for the non current debt in 2007 was 6.040%.

Note 7 – Earnings (Loss) per share

Earnings per share at December 31, 2007 was $ 0.0011 based on a weighted average of 56,649,972 shares outstanding and a loss per share of ($0.0046) as of December 31, 2006 based upon 42,065,753 weighted average shares outstanding.

Note 8 – Income taxes

Components of income taxes are as follows:

	2007	2006
Income (Loss) from continuing operation before income taxes:		
United States	$(18,711)	$(18,000)
Foreign	78,476	(41,901)
Extra-ordinary loss from acquisition of subsidiary	-	(132,345)
	$59,765	$(192,246)

The components of the net deferred income tax assets were as follows:

Deferred income tax assets:		
Net operating loss carryforwards	$74,868	$76,445
Valuation allowance	(34,647)	(36,426)
	$40,221	$40,019
Deferred income tax liabilities	$(27)	$(4)

Deferred tax assets and liabilities are included in other assets and other current liabilities.

The Group does not calculate U.S. deferred income taxes on temporary differences related to the foreign investments that are considered permanent in duration.

Note 9 – Related Party Transactions

As of December 31, 2007, financing proceeds from stockholder and president, Mr. Wei-Rur Chen was $551,008 and as of December 31, 2006 was $164,933.

During the year, the Group leased office from Mr. Wei-Rur Chen at consideration of $48,095 per annum.

The corporation provided no collateral to the party for the above financing proceeds. These proceeds represented a non-interest bearing charge to the Corporation.

Note 10 – Commitments

Rent expense for the year ended December 31, 2007 was $48,095 and $75,338 for the year ended December 31, 2006. The company has a 5-year rental agreement which ends in November 2010 with a renewal option. The annual rent for the remaining years of the agreement are as follows:

2008	$44,391
2009	44,391
2010	37,321
	$126,103

Note 11 – Stockholders' Equity

The company is authorized to issue 500,000,000 common shares with a par value of $0.001.

On February 14, 2006, the Company, a non-operating company, entered into a share exchange agreement with the Subsidiary. The Company issued 30,000,000 shares at par value of $0.001 per share in exchange for all the outstanding shares of the Subsidiary.

During 2007, there were 14,000,000 shares issued to individuals for cash for working capital. The Foreign currency translation adjustment had a value of $17,995 as of December 31, 2007. Accumulated deficits were $132,481 and $192,246 as of December 31, 2007 and 2006, respectively.

Distribution of retained earnings

As provided by the Company's Articles of Incorporation, annual net income shall be distributed in the following order:

a. To pay income tax
b. To offset accumulated deficits
c. To appropriate 10% as legal reserve
d. Set aside 1% as employees' bonus

The remaining balance shall be distributed as dividends to shareholders.

Note 12 – Reissuance of audit report

Subsequent to the date of audit report for the year ended December 31, 2007 was issued, the Company received a letter from United States Securities and Exchange Commission dated February 26, 2008 which required a revise of comparative figures of consolidated financial statements for the year ended December 31, 2007.

Note 13 – Supplemental disclosure of cash flow statement

	For the year ended December 31, 2006
The Company purchased all of the capital stock of Color Stars Inc. for $30,000.	
In conjunction with the acquisition, liabilities were assumed as follows:	
Fair value of assets acquired	$198,213
Consideration paid for the capital stock	(30,000)
Excess of cost over the fair value of acquired net assets	132,345
Liabilities assumed	$300,558