COLORSTARS GROUP AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

To the Board of Directors and Stockholders of ColorStars Group and Color Stars Inc.:

I have audited the consolidated balance sheets of ColorStars Group as of December 31, 2010 and 2009 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 conducted my audits in accordance with 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 examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ColorStars Group as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then, in conformity with U. S. generally accepted accounting principles.

The company is not required to have, nor was I engaged to perform, an audit of its internal control over financial reporting. My audit included 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 Company's internal control over financial reporting. Accordingly, I express no such opinion.

Michael F. Albanese, CPA

Parsippany, New Jersey
April 8, 2011

COLORSTARS GROUP AND SUBSIDIARIES
AUDITED CONSOLIDATED BALANCE SHEETS
(IN US$)

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and equivalents	$1,396,234	$1,442,300
Accounts receivable, net of allowance for doubtful accounts of $13,267 and $12,002 at December 31, 2010 and 2009	215,530	1,107,302
Inventory	788,718	958,885
Prepaid expenses and other current assets	258,323	185,502
Total current assets	2,658,805	3,693,989
Equipment, net of accumulated depreciation	47,891	374,138
Investments	1,421,292	734,495
Intangible assets	10,355	895,953
Other assets	-	18,308
Total assets	$4,138,343	$5,716,883
Liabilities and stockholders' equity		
Current liabilities:		
Short term loan	$411,424	$803,568
Accounts payable	583,297	1,495,681
Accrued expenses	73,917	201,822
Due to stockholder / related party	-	151,861
Current portion of long term debt	-	77,151
Receipts in advance and other current liabilities	15,713	19,377
Total current liabilities	1,084,351	2,749,460
Long term debt, net of current portion		
Long term borrowings	-	194,307
Total liabilities	1,084,351	2,943,767
Stockholders' equity		
Common Stock –Par Value $0.001 67,448,890 shares issued and outstanding at December 31, 2010 and 2009	67,449	67,449
Additional paid in capital	3,112,230	3,112,230
Accumulated other comprehensive income	341,741	76,312
Accumulated deficit	(467,428)	(612,247)
Total stockholders' equity	3,053,992	2,643,744
Noncontrolling interest	-	129,371
Total equity	3,053,992	2,773,115
Total liabilities and stockholders' equity	$4,138,343	$5,716,883

The accompanying notes are an integral part of the financial statements.

COLORSTARS GROUP AND SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF OPERATIONS
(IN US$)

	For the years ended December 31,	
	2010	2009
Net sales	$6,544,315	$4,695,095
Cost of goods sold	4,751,665	3,221,525
Gross profit	1,792,650	1,473,570
Operating expenses		
Selling, general and administrative	1,732,650	1,322,428
Research and development	84,460	56,167
Total operating expenses	1,817,110	1,378,595
Income (loss) from operations	(24,460)	94,975
Other income (expenses)		
Interest expense (net)	(38,623)	(17,481)
Share of investee's operating results	68,503	(1,130)
Gain on disposal of investments	195,540	-
Gain (loss) on foreign exchange, net	(62,160)	6,152
Other, net	(7,638)	9,097
Income before income tax	131,162	91,613
Income tax	45,010	92,526
Net income (loss)	86,152	(913)
Net income attributable to noncontrolling interest	58,667	33,469
Net income attributable to common stockholders	$144,819	$32,556
Earnings per share attributable to common stockholders:		
Basic and diluted per share	$.00	$.00
Weighted average shares outstanding:		
Basic and diluted	67,448,890	67,098,152

The accompanying notes are an integral part of the financial statements.

COLORSTARS GROUP AND SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND ACCUMULATED DEFICIT
(IN US$)

	Shares	Value	Additional Paid in capital	Accumulated other comprehensive income	Accumulated Deficit	Total Stockholder's equity
Balance, December 31, 2008	65,969,590	$65,970	$2,144,680	$12,312	$(644,803)	$1,578,159
Common Stock Subscribed	1,479,300	1,479	967,550	-	-	969,029
Foreign currency adjustment	-	-	-	64,000	-	64,000
Net income	-	-	-	-	32,556	32,556
Balance, December 31, 2009	67,448,890	$ 67,449	$3,112,230	$76,312	$(612,247)	$2,643,744
Foreign currency adjustment	-	-	-	265,429	-	265,429
Net income	-	-	-	-	144,819	144,819
Balance, December 31, 2010	67,448,890	$ 67,449	$3,112,230	$341,741	$(467,428)	$3,053,992

The accompanying notes are an integral part of the financial statements.

COLORSTARS GROUP AND SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN US$)

	For the years ended December 31, 2010	2009
Cash flows from operating activities		
Net income (loss)	$86,152	$(913)
Depreciation and amortization	23,461	101,554
Fixed assets written off / Gain on sale of fixed assets	-	(240)
Provision for doubtful accounts	10,145	11,620
Share of investment loss	(68,503)	1,130
Gain on disposal of investment	(195,540)	-
Changes in operating assets and liabilities:		
Accounts receivable	(377,360)	(53,585)
Inventories	(340,111)	(529,117)
Prepaid expenses and other current assets	(119,758)	(94,274)
Accounts payable	293,909	311,219
Accrued expenses	54,626	83,985
Receipts in advance and other current liabilities	105,334	(117,563)
Cash flows (used in) operating activities	(527,645)	(286,184)
Cash flows from investing activities		
Addition to fixed assets	(10,488)	(72,795)
Acquisitions, net of cash acquired	-	(940,612)
Addition to long term investments	(320,543)	(418,433)
Addition to intangible assets	-	(6,964)
Proceed from sale of investments, net	765,937	-
Proceed from sale of fixed asset	-	17,750
Cash flow provided from (used in) investing activities	434,906	(1,421,054)
Cash flows from financing activities		
Proceed from /(Repayment) to stockholder	-	(271,415)
Proceeds from issuance of common stock	-	969,029
Proceeds from bank loan	-	691,987
Cash flow provided by financing activities	-	1,389,601
Effect of exchange rate changes on cash and cash equivalents	46,673	1,383
Net (decrease) in cash and cash equivalents	(46,066)	(316,254)
Beginning cash and cash equivalents	1,442,300	1,758,554
Ending cash and cash equivalents	$1,396,234	$1,442,300
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$39,248	$28,087
Income taxes	18,127	35

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 Inc. The directors for the Company are Wei-Rur Chen, Hsiu-Fu Liu, and Mei-Ying Chiu.

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

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principals generally accepted in the United States, which contemplate continuation of the Group as a going concern.

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries Color Stars Inc., 50.4% owned Fin-Core Inc. and 51% owned Jun Yee Industrial Co Ltd up to the date of disposal, as appropriate. On July 5, 2010, the Company sold 30.4% equity interest in Fin-Core Corporation (FCC) to third party at consideration of NTD13,680,000 (equivalent to USD424,000). After disposal, equity interest of the Company in FCC decreased from 50.4% to 20%. On November 26, 2010, the Company signed an agreement to sell all the 51% equity interest in Jun Yee Industrial Corporation (Jun Yee) to a third party for the consideration of NTD17,595,000 (equivalent of USD558,000). When the company ceased to have a controlling financial interest in FCC and Jun Yee, the Company deconsolidated FCC and Jun Yee as of the date on which its control ceased. The Company accounted for the deconsolidation by recognizing in net income a gain on disposal of investments.

The Company accounts for equity investments in companies over which it has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method. All significant inter-company transactions and balances have been eliminated in consolidation.

Certain prior year's balances have been reclassified to conform to the current financial presentation.

Note 2 – Summary of Significant Accounting Policies

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 may differ from these estimates in amounts that may be material to the consolidated financial statements and accompanying notes.

Note 2 – Summary of Significant Accounting Policies (continued)

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. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions.

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.

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.

Accounts Receivable — The Company provides for the possibility of customers' inability to make required payments by recording an allowance for doubtful accounts. The Company writes-off an account when it is considered to be uncollectible. The Company evaluates the collectability of its accounts receivable on an on-going basis. The Company records an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. As of December 31, 2010 and 2009, the allowance for doubtful accounts was $13,267 and $12,002 respectively.

Inventory – Inventory is stated at the lower of cost or market (weighted average method). Any write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently would not be marked up based on changes in underlying facts and circumstances. Inventories on hand are evaluated on an on-going basis to determine if any items are obsolete or in excess of future needs. Items determined to be obsolete are reserved for. The Company provides for the possible inability to sell its inventories by providing an excess inventory reserve. There was no reserve at December 31, 2010. As of December 31, 2009, the allowance for obsolete inventory was $98,058.

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.

	2010	2009
Selling costs	$146,797	$107,228
General and administrative costs	1,508,709	1,162,730
Research and development	84,460	56,167
Advertising	77,144	52,470
	1,817,110	1,378,595

Valuation of financial instruments - The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, working capital line of credit, and long-term debt approximate fair value due to their current market conditions, maturity dates and other factors.

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.

The Company sells light-emitting diodes and lighting equipment primarily in the U.S., Europe and Asia. The Company monitors the financial condition of its major customers, including performing credit evaluations of those accounts which management considers being high risk, and generally does not require collateral from its customers. When deemed necessary, the Company may limit the credit extended to certain customers. The Company's relationship with the customer, and the customer's past and current payment experience, are also factored into the evaluation in instances where limited financial information is available. The Company maintains and reviews its allowance for doubtful accounts by considering factors such as historical bad debts, age of the account receivable balances, customer credit-worthiness and current economic conditions that may affect a customer's ability to pay.

The Company currently maintains substantially all of its day-to-day cash balances with major financial institutions. Cash balances are usually in excess of Federal and/or foreign deposit insurance limits.

Note 2 – Summary of Significant Accounting Policies (Continued)

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, and equity accounts at historical 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) within stockholders' equity in the consolidated balance sheets.

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.

Investments – Investments consist of marketable equity securities stated at fair value and are designated as either trading securities or available-for-sale securities at the time of purchase based upon the intended holding period. Changes in fair value of the trading securities are recognized currently in general and administrative expenses in the consolidated statements of operations. Changes in the fair value of available-for-sale securities are recognized in accumulated other comprehensive income on the consolidated balance sheets, unless the Company determines an unrealized loss is other-than-temporary. If the Company determines an unrealized loss is other-than-temporary, the Company recognizes the loss in earnings. Cost basis is determined using average cost. If the Company has significant influence over the investee, the investment is accounted for under the equity method of accounting.

At December 31, 2010 and 2009, the Company has investments stated at cost and investments accounted for under the equity method of accounting.

Other-Than-Temporary Impairment - All of the Company's available-for-sale investments and non-marketable equity securities are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the previous six months, general market conditions and the Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery. For non-marketable equity securities, the impairment analysis requires the identification of events or circumstances that would likely have a significant adverse effect on the fair value of the investment, including revenue and earnings trends, overall business prospects and general market conditions in the investees' industry or geographic area. Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other-than-temporarily impaired, in which case the investment is written down to its impaired value.

Note 2 – Summary of Significant Accounting Policies (Continued)

Impairment of long-lived assets — Certain of the Company's long-lived assets are reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company considers assets to be impaired if the carrying value exceeds the undiscounted projected cash flows from operations. If impairment exists, the assets are written down to fair value or to the projected discounted cash flows from related operations. As of December 31, 2010, the Company expects the remaining carrying value of assets to be recoverable.

Income taxes — Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company's assets and liabilities. If it is more likely than not that some portion of deferred tax assets will not be realized, a valuation allowance is recorded.

Generally accepted accounting principles in the United States of America ("GAAP") prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts.

Note 3 - Recently Issued Accounting Pronouncements

In August 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-22 (ASU 2010-22), Accounting for Various Topics - Technical Corrections to SEC Paragraphs - An announcement made by the staff of the U.S. Securities and Exchange Commission. This Accounting Standards Update amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. The Company does not expect the provisions of ASU 2010-22 to have a material effect on its financial position, results of operation or cash flows.

In August 2010, the FASB issued ASU 2010-21, Accounting for Technical Amendments to Various SEC Rules and Schedules: Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. The Company does not expect the provisions of ASU 2010-21 to have a material effect on its financial position, results of operations or cash flows.

In February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (amendments to ASC Topic 855, *Subsequent Events*). ASU 2010-09 clarifies that subsequent events should be evaluated through the date the financial statements are issued. In addition, ASU 2010-09 no longer requires a filer to disclose the date through which subsequent events have been evaluated and is effective for financial statements issued subsequent to February 24, 2010. The provisions of ASU 2010-09 were adopted during the first quarter of 2010 and did not have a material impact on the Company's consolidated financial statements.

Note 4 –Comprehensive Income (Loss)

U.S. GAAP generally requires that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or (loss). As of December 31, 2010, the components of comprehensive income or (loss) include net income (loss) only.

Total comprehensive income (loss) for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Net income (loss)	$86,152	$(913)
Translation adjustment	265,429	64,000
	351,581	63,087
Comprehensive income		
Comprehensive income attributable to noncontrolling interest	58,667	33,469
Total comprehensive income attributable to common stockholders	$410,248	$96,556

Note 5 – Earnings per share

Basic net earning per share is computed by dividing net earning for the period by the weighted average number of shares of common stock outstanding during the period.

The following table sets forth the computation of basic and diluted net earning per share for the periods indicated:

	2010	2009
Net income attributable to common stockholders	$144,819	$32,556
Weighted average common stock outstanding - basic and diluted	67,448,890	67,098,152
Earning per share attributable to common stockholder - basic and diluted	$.00	$0.00

Note 6 – Long term investment

	2010	2009
Equity method investment – Anteya Technology Corp		
Carrying value of investment, January 1, 2010	$592,457	$593,624
Interest in Anteya's 2010 net income /(loss)	122,516	(1,167)
Exchange difference	82,390	-
Carrying value, December 31	797,363	592,457
Equity method investment – Fin-Core Corporation		
Carrying value of investment, January 1, 2010	187,544	-
Addition at cost	342,853	
Interest in Fin-Core's 2010 net loss	(48,506)	-
Carrying value, December 31, 2010	481,891	-
Cost-method investments – Phocos		
At cost	142,038	142,038
	$1,421,292	$734,495

Anteya Technology Corp is a private company incorporated in Taiwan. The equity interest held by the Company is 20%. Accordingly, the Company adopted the equity method of accounting with respect to the investment in Anteya.

On July 5, 2010, the Company's board of directors approved the sale of 30.4% equity (or 456,000 shares) in Fin-Core Corporation (FCC) to a third party at the consideration of NTD13,680,000 (equivalent to USD429,000). After the disposal, the equity interest of the Company in FCC decreased from 50.4% to 20%.

On July 5, 2010, the Company's board of directors approved the participation in subscribing FCC's newly issued shares and maintains the overall equity interest of 20%. The Company subscribed 500,000 shares at consideration of NTD$10,000,000 (equivalent of USD320,000). The Company adopted the equity method of accounting to the investment in FCC.

Phocos AG is a private company incorporated in Germany. The equity interest held by the Company is 2.38%.

Note 6 – Long term investment (continued)

The audited financial information of Anteya Technology Corp. for the year ended December 31, 2010 and 2009 (in US dollars) are as follows:

Balance sheet	2010	2009
Current assets	$4,963,357	$3,110,406
Non-current assets	762,914	523,269
Total assets	5,726,271	$3,633,675
Current liabilities	2,986,881	$1,583,277
Non-current liabilities	628,564	531,149
Stockholders' equity	2,110,826	1,519,249
Total stockholders' equity and liabilities	$5,726,271	$3,633,675

Statement of operation	2010	2009
Net sale	$5,596,610	$2,687,136
Cost of goods sold	4,094,404	1,931,443
Gross profit	1,502,206	755,693
Operating and non-operating expenses	1,137,255	761,528
Net income (loss)	$364,951	$(5,835)

Note 7 – Inventory

Inventories stated at the lower of cost or market value are as follows:

	2010	2009
Raw materials	$ -	$194,079
Work in progress	-	1,107
Finished goods	788,718	763,699
	$788,718	$958,885

Note 8 – Goodwill and Intangible Assets

	2010	2009
Intangible assets:		
Goodwill	$ -	$876,012
Amortizable intangible assets	42,382	41,773
Accumulated amortization	(32,027)	(21,832)
Total	$10,355	$895,953

Identifiable intangible assets, which are subject to amortization, consist primarily of patents and trademark. These intangible assets are amortized over the assets' estimated useful lives which range from three to five years.

Amortization expense associated with identifiable intangible assets was as follows:

	For the years ended December 31,	
	2010	2009
Amortization expense	$7,845	$7,957

Note 9 – Equipment

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

	2010	2009
Plant and equipment:		
Machinery equipment	$31,206	$365,285
Transportation equipment	16,800	89,490
Office equipment	85,148	83,944
Other	241	132,373
Total cost	133,395	671,092
Accumulated depreciation:		
Machinery equipment	23,553	152,576
Transportation equipment	5,133	27,741
Office equipment	56,577	57,505
Other	241	59,132
Total accumulated depreciation	85,504	296,954
Plant and equipment – net	$47,891	$374,138

Depreciation was $15,616 and $93,596 for the years ended December 31, 2010 and 2009 respectively.

Note 10 – Income taxes

The Company is subject to U.S. federal income tax as well as income tax in states and foreign jurisdictions. For the major taxing jurisdictions, the tax years 2006 through 2009 remain open for state and federal examination. The Company believes assessments, if any, would be immaterial to its consolidated financial statements. With respect to the foreign jurisdiction, the Company is no longer subject to income tax audits for the year 2008 (inclusive). The Company has filed a business income tax return for the year 2009 on time and it is being reviewed by the foreign local tax authority.

The income tax provision information is provided as follows:

	2010	2009
Component of income (loss) before income taxes:		
United States	$(209,248)	$(115,400)
Foreign	340,410	207,013
Income before income taxes	131,162	$91,613
Provision for income taxes		
Current		
U.S. federal	-	-
State and local	800	800
Foreign	44,210	91,726
Income tax provision	45,010	92,526

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes. The sources and tax effects of the differences, for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Federal income taxes at applicable statutory rates	$45,906	$31,784
Adjustment resulting from the tax effect of:		
Foreign tax rate differential	(52,577)	(8,280)
Change in valuation allowance	73,236	41,470
Foreign taxation adjustment	(27,772)	27,552
Others	6,217	-
	$45,010	$92,526

As of December 31, 2010, no deferred tax asset was recognized for net operating loss carryforwards, which expire at various amounts over an approximate 20 year period. In assessing the realizability of deferred tax assets, the Company has determined that at this time it is more likely than not that deferred tax assets will not be realized, primarily due to uncertainties related to its ability to utilize the net operating loss carryforwards before they expire based on the negative evidence of its recent years history of losses in the US, outweighing the positive evidence of taxable income projections in future years.

Note 11 – Accrued expenses

	2010	2009
Salaries and allowance	$17,604	$81,345
Insurance	5,545	13,712
Tax payable	39,261	71,250
Others	11,507	35,515
	$73,917	$201,822

Note 12 – Bank short and long term debt

Short-term debt

	2010	2009
Bank loan payable to Taiwan banks	$411,424	$803,568

The Company signed an unsecured revolving credit agreement with a bank. The interest rate on short-term borrowings outstanding as of December 31, 2010 ranges from 2.604% to 3.070% per annum. The short term debt was secured by personal guarantee from director.

Long-term debt

	2010	2009
Loan payable to Taiwan banks	$-	$271,458
Less: current portion	-	77,151
Long term debt, net of current portion	$-	$194,307

As at December 31, 2010, the Company did not have any long term outstanding debt and no assets were pledged to banks. The long term debt as at December 31, 2009 was the liability of the subsidiary Jun Yee Industrial Co Ltd. The Company ceased the control in November 2010 and as such Jun Yee was not included in the consolidated balance sheets as at December 31, 2010. As at December 31, 2009, the following assets in the name of Jun Yee were pledged to the banks for the banking facilities granted:

1. Cash deposit of around USD108,000;
2. Guarantee from directors
3. Personal properties of officers of Jun Yee

Note 13 - Geographic Information

Product revenues for the years ended December 31 are as follows:

	2010	2009
Customers based in:		
Europe	$1,855,878	$1,602,554
Asia	2,908,746	2,202,444
United States	894,587	523,824
Others	885,104	366,273
	$6,544,315	$4,695,095

Note 14 – Related Party Transactions

The Company has recorded expenses for the following related party transactions in the year ended December 31:

	2010	2009
Expenses:		
Purchase from Anteya Technology Corp	$1,453,302	$785,040
Purchase from Fin-Core Corporation	320,127	-
Rent paid to Mr. Wei-Rur Chen	45,697	43,586

As of the balance sheet date indicated, the Company had the following liabilities recorded with respect to related party transactions:

	2010	2009
Liabilities:		
Anteya Technology Corp	$404,774	$235,437
Fin-Core Corporation	82,817	-
Mr. Dong Min Jun	-	151,861

In July 2009, the Company purchased 140,000 shares of Anteya Technology Corp from the spouse of Mr. Wei-Rur Chen, stockholder and president of the Company, at consideration of $122,331.

On March 20, 2009, the Company completed the acquisition of 7,560,000 common shares (which represented 50.4% equity interest) in Fin-Core Inc., a company incorporated under the laws of Republic of China (Taiwan), at consideration of NTD15,876,000 (equivalent to $470,000) from related parties and third parties. 225,500 shares of 7,560,000 of Fin-Core Inc. were purchased from Mr. Wei-Rur Chen and his spouse.

The company provided no collateral to the related party for the above financing proceeds as at December 31, 2009 from Mr. Dong Min Jun, who is the shareholder of Jun Yee Industrial Co Ltd. These proceeds represented a non-interest bearing charge to the Company.

Note 14 – Related Party Transactions (continued)

The Company leased office space from Mr. Wei-Rur Chen which the term for the agreement is from November 2005 to November 2010. The Company renewed the lease in 2010 for another five years from November 2010 to November 2015.

The Company conducted business with related party companies, Anteya Technology Corp and Fin-Core Corporation. The Company owns 20% of the outstanding common stock of Anteya Technology Corp and Fin-Core Corporation as of December 31, 2010. All transactions were at market-based arms length prices.

Note 15 – Acquisition of Business

On March 20, 2009, a wholly-owned subsidiary of the Company acquired 50.40 percent of the outstanding common shares of Fin-Core Inc. ("Fin-Core"). Fin-Core Inc., a private company incorporated in April 17, 2008 in Taiwan, is principally engaged in the design, and manufacturing of thermal management devices; the design and manufacturing of electrical and lighting devices and trade, import and export of electrical and lighting devices. The purpose of this acquisition was to create revenue, operating and cost synergies and to enhance the Company's competiveness. In addition, the Company believes that the acquisition will strengthen and broaden the Company's product offerings, including entry into the PAR30 and PAR38 LED lamp retrofit markets and expand the Company's geographical footprint in the USA markets.

The following table summarizes the consideration paid for Fin-Core and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in Fin-Core.

Consideration	
Cash	$468,262
Contingent consideration arrangement	-
Fair value of total consideration transferred	$468,262
Recognized amounts of identifiable assets acquired and liabilities assumed	
Financial assets	$280,242
Inventory	76,021
Property, plant, and equipment	120,337
Financial liabilities	(236,403)
Total identifiable net assets	240,197
Noncontrolling interest in Fin-Core	(119,138)
Goodwill	347,203
	$468,262

Note 15 – Acquisition of Business (continued)

On August 10, 2009, the Company completed its acquisition of Jun Yee, pursuant to which the Company acquired 51% of the voting common stock of Jun Yee at a price of NTD$23 per share, or an aggregate purchase price of NTD17,595,000 (equivalent to USD536,334). The Company paid the purchase consideration in cash. Jun Yee's technology and development capabilities are complementary to the Company's existing product portfolios. The Company expects that this strategic combination will provide customers with a stable product sourcing as well as improved service, support and a future roadmap for serial connectivity.

The purchase price has been allocated as follows:

Consideration	
Cash	536,334
Contingent consideration arrangement	-
Fair value of total consideration transferred	536,334
Recognized amounts of identifiable assets acquired and liabilities assumed	
Financial assets	868,968
Inventory	73,638
Property, plant, and equipment	187,864
Financial liabilities	(1,049,993)
Total identifiable net assets	80,477
Non-controlling interest in Jun Yee	(39,434)
Goodwill	495,291
	536,334

Note 16 – Sale of Assets

On July 5, 2010, the Company sold 30.4% equity interest in Fin-Core Corporation (FCC) to third party at consideration of NTD13,680,000 (equivalent to USD424,000). After disposal, equity interest of the Company in FCC decreased from 50.4% to 20%. The sale was completed in July 2010 for $344,866 in cash, net of working capital adjustment. The Company recorded a gain of $170,368.

On November 26, 2010, the Company signed an agreement to sell all the 51% equity interest in Jun Yee Industrial Corporation (Jun Yee) to a third party for the consideration of NTD17,595,000 (equivalent of USD558,000). The sale was completed in November 2010 for $421,071 in cash, net of working capital adjustment. The Company recorded a gain of $25,172.

Note 17 – Commitments

	2010	2009
Rent expenses	$198,454	$119,716

The company leases offices in Taiwan and in California , US under operating leases. Minimum future rental payments due under non-cancelable operating leases with remaining terms in excess of one year at December 31, 2010 are as follows:

2011	$84,781
2012	49,371
2013	49,371
2014	49,371
2015	41,965
	$274,859

Note 16 – Subsequent Events

The Company evaluated all events subsequent to December 31, 2010 through the date of the issuance of the financial statements and concluded that there are no significant or material transactions to be reported.