COLORSTARS GROUP AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

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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, 2011 and 2010 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, 2011 and 2010, 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 audits 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
March 29, 2012

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

Assets	December 31, 2011	December 31, 2010
Current assets:		
Cash and equivalents	$989,078	$1,396,234
Accounts receivable, net of allowance for doubtful accounts of $11,624 and $13,267 at December 31, 2011 and 2010	299,050	215,530
Inventory	821,100	788,718
Prepaid expenses and other current assets	166,581	258,323
Total current assets	2,275,809	2,658,805
Equipment, net of accumulated depreciation	152,069	47,891
Investments	1,137,256	1,421,292
Deferred income tax assets	89,000	-
Intangible assets	4,374	10,355
Total assets	$3,658,508	$4,138,343
Liabilities and stockholders' equity		
Current liabilities:		
Short term loan	396,223	$411,424
Accounts payable	464,654	583,297
Accrued expenses	49,075	73,917
Loan from stockholder	100,000	-
Receipts in advance and other current liabilities	13,414	15,713
Total current liabilities	1,023,366	1,084,351
Stockholders' equity		
Common Stock –Par Value $0.001 67,448,890 shares issued and outstanding at December 31, 2011 and 2010	67,449	67,449
Additional paid in capital	3,112,230	3,112,230
Accumulated other comprehensive income	226,527	341,741
Accumulated deficit	(771,064)	(467,428)
Total stockholders' equity	2,635,142	3,053,992
Total liabilities and stockholders' equity	$3,658,508	$4,138,343

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

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

	For the years ended December 31, 2011	2010
Net sales	$3,812,652	$6,544,315
Cost of goods sold	2,728,433	4,751,665
Gross profit	1,084,219	1,792,650
Operating expenses		
Selling, general and administrative	1,200,103	1,732,650
Research and development	59,198	84,460
Total operating expenses	1,259,301	1,817,110
Loss from operations	(175,082)	(24,460)
Other income (expenses)		
Interest expense (net)	(11,756)	(38,623)
Share of investee's operating results (net)	(97,209)	68,503
Impairment of investment	(136,803)	-
Gain on disposal of investment	-	195,540
Gain (loss) on foreign exchange, net	45,254	(62,160)
Other, net	5,070	(7,638)
(Loss) income before income tax	(370,526)	131,162
Income tax (benefit) expense	(66,890)	45,010
Net (loss) income	(303,636)	86,152
Add: Net income attributable to noncontrolling interest	-	58,667
Net (loss) income attributable to common stockholders	$(303,636)	$144,819
Earnings per share attributable to common stockholders:		
Basic and diluted per share	$0.00	$.00
Weighted average shares outstanding:		
Basic and diluted	67,448,890	67,448,890

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

COLORSTARS GROUP AND SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENTS 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, 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
Foreign currency adjustment	-	-	-	(115,214)	-	(115,214)
Net loss	-	-	-	-	(303,636)	(303,636)
Balance, December 31, 2011	67,448,890	$ 67,449	$3,112,230	$226,527	$(771,064)	$2,635,142

The accompanying notes are an integral part of the financial statements

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

	For the years ended December 31,	
Cash flows from operating activities	2011	2010
Net (loss) income	$(303,636)	$86,152
Depreciation and amortization	33,660	23,461
Provision for doubtful accounts	12,694	10,145
Share of investment loss (profit)	97,210	(68,503)
Impairment of investment	132,799	
Gain on disposal of investment	-	(195,540)
Changes in operating assets and liabilities:		
Accounts receivable	(96,215)	(377,360)
Inventories	(32,382)	(340,111)
Deferred income tax	(89,000)	-
Prepaid expenses and other current assets	104,436	(119,758)
Accounts payable	(118,643)	293,909
Accrued expenses	(24,842)	54,626
Receipts in advance and other current liabilities	(2,299)	105,334
Cash flows (used in) operating activities	(286,218)	(527,645)
Cash flows from investing activities		
Disposal (Addition) to fixed assets	(132,631)	(10,488)
Addition to long term investments	-	(320,543)
Proceed from sale of investments, net	-	765,937
Cash flow (used in) provided from investing activities	(132,631)	434,906
Cash flows from financing activities		
Loan from stockholder	100,000	-
Cash flow provided from financing activities	100,000	-
Effect of exchange rate changes on cash and cash equivalents	(88,307)	46,673
Net (decrease) in cash and cash equivalents	(407,156)	(46,066)
Beginning cash and cash equivalents	1,396,234	1,442,300
Ending cash and cash equivalents	$989,078	$1,396,234
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$12,319	$39,248
Income taxes	43,638	18,127

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.

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 consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which contemplate continuation of the Group as a going concern.

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.

In October 2011, the associated company, Fin-Core Corporation, decided to raise its capital by issuing 3,000,000 new shares at par value of NTD10 per share. The Company was entitled to subscribe for up to 600,000 shares for NTD6,000,000; however the Company chose not to participate in the subscription of any newly issued shares of Fin-Core. As a result, on November 4, 2011 the Company's equity interest in Fin-Core was decreased to 11.43% from the current 20% after issuance of 3,000,000 new shares.

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.

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. The Company evaluates these estimates on a regular basis and bases them on historical experience and on various assumptions that the Company believes are reasonable. Actual results could differ from the estimates.

Note 2 – Summary of Significant Accounting Policies

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.

Restricted cash – There are no restricted cash balances related to bank loans.

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.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are recorded at net realizable value. 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, 2011 and 2010, the allowance for doubtful accounts was $11,624 and $13,267 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. As of December 31, 2011, the allowance for obsolete inventory was $39,005.

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

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, 2011 and 2010, the Company has investments stated at cost and investments accounted for under the equity method of accounting.

Impairment of long-lived assets - The Company reviews the recoverability of its long-lived assets, such as property and equipment and intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

Fair Value of Financial Instruments - The Company values financial assets and liabilities using fair value measurements. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities, and other current liabilities in the Consolidated Financial Statements approximates fair value because of the short-term nature of the instruments.

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.

Note 2 – Summary of Significant Accounting Policies

Concentration of Credit Risk - Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of accounts receivable, cash and cash equivalents. The Company's cash and cash equivalents are maintained with high quality institutions, the compositions and maturities of which are regularly monitored by management. Through December 31, 2011, the Company had not experienced any losses on such deposits.

Accounts receivable include amounts due from customers primarily in the manufactory industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. The Company also maintains allowances for potential credit losses. In estimating the required allowances, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of a limited amount of credit insurance and specifically identified customer risks. Through December 31, 2011, such losses have been within management's expectations.

In fiscal years 2011, products sold to the Company's largest customer, accounted for approximately 12.26% of the total revenue for fiscal year 2011. Products purchased from the Company's largest suppliers, Anteya Technology Corp, Jun and Yee Industrial Corporation, accounted for approximately 29.19% and 18.43% of the total purchases for fiscal year 2011 respectively.

As of December 31, 2011, the largest three customers exceeded 70% of the total consolidated accounts receivable balance.

Income taxes - The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided against deferred tax assets that are not likely to be realized.

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.

Comprehensive income - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The primary components of comprehensive income for the Company include net income and foreign currency translation adjustments arising from the consolidation of the Company's foreign subsidiaries.

Note 2 – Summary of Significant Accounting Policies

Net income per common share - Net income per common share-basic is computed by dividing the net income attributable to the Company for the period by the basic weighted-average number of outstanding common shares.

The calculation of net income per common share attributable to the Company is presented in Note 5.

Shipping and Handling Costs - Shipping and handling costs incurred by us for the delivery of products to customers are included in selling, general and administrative expenses.

Advertising Costs - Advertising costs are expensed when incurred and are included in selling, general, and administrative expenses.

Research and development costs — Research and development costs are expensed as incurred.

Note 3 - Recently Issued Accounting Pronouncements

Intangibles – Goodwill and other - In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, Intangibles –Goodwill and other Topic 350. The company has the option to assess qualitative factors to determine whether the existence of events leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The company does not need to perform the two-step impairment test if it determines the fair value of a reporting unit is less than its carrying amount after considering the totality of circumstances. This amendment simplifies how the entities test goodwill for impairment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company does not expect that the adoption will have a material effect on the consolidated financial statements.

Comprehensive Income - In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). Effective January 1, 2012, the Company will adopt the accounting standards update that amends the presentation requirements for comprehensive income and requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the update requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements where the components of net income and the components of other comprehensive income are presented regardless of whether an entity chooses to present total comprehensive income in a single continuous statement or in two separate but consecutive statements. The update is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption will have a material effect on the consolidated financial statements.

Note 3 - Recently Issued Accounting Pronouncements

Balance Sheet – the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11 in December 2011, Balance sheet – Disclosures about Offsetting Assets and Liabilities. The new requirements state that entities must disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope of the requirements includes derivatives, sales and repurchases agreements, reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect that the adoption will have a material effect on the 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, 2011, the components of comprehensive income or (loss) include net income (loss) only.

Total comprehensive income (loss) for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Net income (loss)	$(303,636)	$86,152
Translation adjustment	(115,214)	265,429
	(418,850)	351,581
Comprehensive income attributable to noncontrolling interest	-	58,667
Total comprehensive income (loss) attributable to common stockholders	$(418,850)	$410,248

Note 5 – Earnings per share

Basic net income (loss) per share is computed by dividing net income (loss) 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 income (loss) per share for the periods indicated:

	2011	2010
Net (loss) income attributable to common stockholders	$(303,636)	$144,819
Weighted average common stock outstanding - Basic and diluted	67,448,890	67,448,890
Earnings per share attributable to common stockholder Basic and diluted	$.00	$.00

Note 6 – Long term investment

	2011	2010
Equity method investment – Anteya Technology Corp		
Carrying value of investment at the beginning	$797,363	$592,457
Interest in Anteya's net income	40,835	122,516
Exchange difference	(39,067)	82,390
Carrying value at the end	799,131	797,363
Equity method investment – Fin-Core Corporation		
Carrying value of investment at the beginning	481,891	187,544
Addition at cost	-	342,853
Interest in Fin-Core's net loss up to Oct 2011	(135,200)	(48,506)
Impairment for the year	(132,799)	
Exchange difference	(17,805)	-
Carrying value at the end	196,087	481,891
Cost-method investments – Phocos		
At cost	142,038	142,038
	$1,137,256	$1,421,292

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. There were 200,000 bonus shares issued in 2011 to the Company. The equity interest held by the Company remains unchanged.

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.

In October 2011, the associated company, Fin-Core Corporation, decided to increase its capital by issuing 3,000,000 new shares at par value of NTD10 per share. The Company was entitled to subscribe for up to 600,000 shares for NTD6,000,000. However the Company chose not to participate in the subscription of any newly issued shares of Fin-Core. As a result, on November 4, 2011 the Company's equity interest in Fin-Core decreased to 11.43% from 20% after issuance of 3,000,000 new shares. The Company recorded the investment in Fin-Core Corporation at cost on the date when the Company ceased to have significant influence over the investee.

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 unaudited financial information of Anteya Technology Corp. for the year ended December 31, 2011 and 2010 (in US dollars) are as follows:

Balance sheet	2011	2010
Current assets	$4,671,187	$4,963,357
Non-current assets	1,101,058	762,914
Total assets	5,772,245	5,726,271
Current liabilities	2,437,814	2,986,881
Non-current liabilities	1,097,420	628,564
Stockholders' equity	2,237,011	2,110,826
Total stockholders' equity and liabilities	$5,772,245	$5,726,271

Statement of operation	2011	2010
Net sale	$6,130,555	$5,596,610
Cost of goods sold	(4,695,958)	4,094,404
Gross profit	1,434,597	1,502,206
Operating and non-operating expenses	(1,224,267)	1,137,255
Net profit	$210,330	$364,951

Note 7 – Inventory

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

	2011	2010
Finished goods	$821,100	$788,718

Note 8 – Goodwill and Intangible Assets

	2011	2010
Intangible assets:		
Amortizable intangible assets	$42,382	$42,382
Accumulated amortization	(38,008)	(32,027)
Total	$4,374	$10,355

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

Note 9 – Equipment

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

	2011	2010
Plant and equipment:		
Machinery equipment	$144,496	$31,206
Transportation equipment	16,179	16,800
Office equipment	100,895	85,148
Other	232	241
Total cost	261,802	133,395
Accumulated depreciation:		
Machinery equipment	38,465	23,553
Transportation equipment	7,640	5,133
Office equipment	63,396	56,577
Other	232	241
Total accumulated depreciation	109,733	85,504
Plant and equipment – net	$152,069	$47,891

Depreciation was $27,893 and $15,616 for the years ended December 31, 2011 and 2010 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 2011 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 2011 (inclusive).

The income tax provision information is provided as follows:

	2011	2010
Component of income (loss) before income taxes:		
United States	$(256,458)	$(209,248)
Foreign	(114,068)	340,410
Income (loss) before income taxes	(370,526)	131,162
Provision for income taxes		
U.S. federal	(89,000)	-
State and local	800	800
Foreign	21,310	44,210
Income tax (benefit) provision	(66,890)	45,010
Current	22,110	45,010
Deferred	(89,000)	-
	(66,890)	45,010

Note 10 – Income taxes (continued)

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, 2011 and 2010 are as follows:

	2011	2010
Federal income taxes at applicable statutory rates	$(129,684)	$45,906
Adjustment resulting from the tax effect of:		
Foreign tax rate differential	11,407	(52,577)
Change in valuation allowance	760	73,236
Foreign taxation adjustment	49,040	(27,772)
Others	1,587	6,217
	(66,890)	$45,010

As of December 31, 2011, there was gross U.S. federal net operating loss carryforwards of approximately $590,000, which may be available to offset future federal income tax liabilities. All of the gross federal net operating losses are limited by certain provisions of the U.S. tax code which restricts their utilization in the future.

The federal net operating losses expire at various dates through December 31, 2030.

Note 11 – Accrued expenses

	2011	2010
Salaries and allowance	$19,987	$17,604
Insurance	8,150	5,545
Tax payable	11,040	39,261
Others	9,898	11,507
	$49,075	$73,917

Note 12 - Bank short term debt

	2011	2010
Bank loan payable to Taiwan banks	$396,223	$411,424

The Company signed revolving credit agreements with a lending institution. The interest rate on short-term borrowings outstanding as of December 2011 ranges from 2.946% to 3.175% per annum, as of December 31, 2010, interest rate ranges from 2.604% to 3.070% per annum. The short term debt is secured by:

1. personal guarantee from a director
2. the realty property of spouse of a director

Note 13- Geographic Information

Product revenues for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Customers based in:		
Europe	$1,961,320	$1,855,878
Asia	417,000	2,908,746
United States	888,058	894,587
Others	546,274	885,104
	$3,812,652	$6,544,315

Note 14 – Related Party Transactions

The Company has recorded expenses for the following related party transactions for the year ended December 30, 2011 and 2010:

	2011	2010
Purchase from Anteya Technology Corp	$1,614,844	$1,453,302
Purchase from Fin-Core Corporation	-	320,127
Rent paid to Mr. Wei-Rur Chen	48,980	45,697
Sale to Anteya Technology Corp	1,061	-

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

	2011	2010
Liabilities:		
Anteya Technology Corp	$298,887	$404,774
Fin-Core Corporation	-	82,817

The Company leases office space from Mr. Wei-Rur Chen which the term for the agreement is 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% and 11.43% of the outstanding common stock of Anteya Technology Corp and Fin-Core Corporation as of December 31, 2011 respectively. All transactions were at market-based prices.

The stockholder, Mr. Wei-Rur Chen, provided a personal loan of USD$100,000 to the company. The personal loan is unsecured, repayable on demand and interest bearing at applicable federal short-term rate in effect for each day on outstanding loan principal and unpaid accrued interest. The interest expense paid to Mr. Chen for the year ended December 31, 2011 is $107.

Note 15 – Commitments

	2011	2010
Rent expenses	$125,857	$198,454

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 at December 31, 2011 are as follows:

2012	104,722
2013	80,549
2014	47,547
2015	40,415
	$273,233

Note 16– Subsequent Events

The Company evaluated all events subsequent to December 31, 2011 through the date of the issuance of the financial statements and concluded that except the following matter, there are no other significant or material transactions to be reported.

On March 1, 2012, the Company entered into an employment agreement with the Company's Chairman, President, CEO and CFO, Mr. Wei-Rur Chen ("Mr. Chen").

The Employment Agreement has a term of five years from the effective date, March 1, 2012, subject to the termination provisions contained therein. Pursuant to the Employment Agreement, Mr. Chen shall receive, in exchange for his services, the compensation in sum of $146,000 and stock options, in such amounts as determined by the Company's Compensation Committee, following the board of director's approval of the Company's annual financial statements.

Mr. Chen shall also be entitled to participate in any and all deferred compensation, 401(k) and other benefit plans that are made generally available by the Company to such executives who have similar responsibilities and perform similar functions as Mr. Chen.