COLORSTARS GROUP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2012

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(Unaudited)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

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

Assets	June 30, 2012	December 31, 2011
Current assets:		
Cash and equivalents	$614,414	$989,078
Accounts receivable, net of allowance for doubtful accounts of $17,787 at June 30, 2012 and $11,624 at December 31, 2011	282,998	299,050
Inventory	928,388	821,100
Prepaid expenses and other current assets	180,978	166,581
Total current assets	2,006,778	2,275,809
Equipment, net of accumulated depreciation	189,116	152,069
Investments	1,161,240	1,137,256
Deferred income tax assets	89,000	89,000
Intangible assets	2,565	4,374
Total assets	$3,448,699	$3,658,508
Liabilities and stockholders' equity		
Current liabilities:		
Short term loan	$402,468	$396,223
Accounts payable	420,229	464,654
Accrued expenses	30,459	49,075
Loan from stockholder	100,000	100,000
Receipts in advance and other current liabilities	48,729	13,414
Total current liabilities	1,001,885	1,023,366
Stockholders' equity		
Common Stock –Par Value $0.001 67,448,890 shares issued and outstanding at June 30, 2012 and December 31, 2011	67,449	67,449
Additional paid in capital	3,112,230	3,112,230
Accumulated other comprehensive income	266,766	226,527
Accumulated deficit	(999,631)	(771,064)
Total stockholders' equity	2,446,814	2,635,142
Total liabilities and stockholders' equity	$3,448,699	$3,658,508

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

COLORSTARS GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(IN US$)

	Three months ended June 30, 2012	2011
Net sales	$700,935	$1,081,444
Cost of goods sold	472,310	843,976
Gross profit	228,625	237,468
Operating expenses		
Selling, general and administrative	306,211	269,000
Research and development	26,330	52,552
Total operating expenses	332,541	321,552
Loss from operations	(103,916)	(84,084)
Other income (expenses)		
Interest expense (net)	(2,646)	(2,776)
Share of investee's operating results (net)	14,517	(17,648)
Gain (loss) on foreign exchange, net	6,661	(18,197)
Other, net	2,069	-
Loss income before income tax	(83,315)	(122,705)
Income tax benefit (expense)	(1,103)	5,260
Net loss	(84,418)	(117,445)
Other comprehensive income (loss), net		
Translation adjustment	-	-
Comprehensive income (loss)	$(84,418)	$(117,445)
Net loss attributable to common stockholders	$(84,418)	$(117,445)
Comprehensive loss attributable to common stockholders	$(84,418)	$(117,445)
Earnings per share attributable to common stockholders:		
Basic and diluted per share	$0.00	$0.00
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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
(IN US$)

	For six months ended June 30,	
	2012	2011
Net sales	$1,412,151	$2,035,117
Cost of goods sold	941,676	1,486,129
Gross profit	470,475	548,988
Operating expenses		
Selling, general and administrative	634,845	540,909
Research and development	52,163	92,474
Total operating expenses	687,008	633,383
(Loss) from operations	(216,533)	(84,395)
Other income (expenses)		
Interest expense (net)	(5,824)	(5,755)
Share of investee's operating results (net)	4,220	(44,552)
Gain (loss) on foreign exchange, net	(19,411)	(8,066)
Other, net	4,400	-
(Loss) before income tax	(233,148)	(142,768)
Income tax benefit (expense)	4,581	68
Net (loss)	(228,567)	(142,700)
Other comprehensive income (loss), net		
Translation adjustment	40,239	-
Comprehensive income (loss)	$(188,328)	$(142,700)
Net loss attributable to common stockholders	(228,567)	(142,700)
Comprehensive loss attributable to common stockholders	(188,328)	(142,700)
Earnings per share attributable to common stockholders:		
Basic and diluted per share	$0.00	$0.00
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
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(IN US$)

	For three months ended June 30,	
Cash flows from operating activities	2012	2011
Net (loss)	$(84,418)	$(117,445)
Depreciation and amortization	9,438	7,766
Provision for doubtful accounts	1,796	2,860
Share of investment loss	(14,488)	17,648
Changes in operating assets and liabilities:		
Accounts receivable	(9,906)	112,710
Inventories	(11,201)	(35,521)
Prepaid expenses and other current assets	(21,611)	15,843
Accounts payable	(4,546)	38,657
Accrued expenses	794	(29,712)
Receipts in advance and other current liabilities	39,894	(17,778)
Cash flows provided from (used in) operating activities	(94,248)	(4,972)
Cash flows from investing activities		
Addition to fixed assets	(4,581)	(30,870)
Cash flow (used in) investing activities	(4,581)	(30,870)
Effect of exchange rate changes on cash and cash equivalents	341	29,265
Net (decrease) in cash and cash equivalents	(98,488)	(6,577)
Beginning cash and cash equivalents	712,902	1,381,097
Ending cash and cash equivalents	$614,414	$1,374,520
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$3,006	$3,128
Tax paid	-	23,146

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

COLORSTARS GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)
(IN US$)

Cash flows from operating activities	For six months ended June 30, 2012	2011
Net (loss)	$(228,567)	$(142,700)
Depreciation and amortization	20,880	12,216
Provision for doubtful accounts	6,012	2,860
Share of investment (profit)/ loss	(4,220)	44,551
Changes in operating assets and liabilities:		
Accounts receivable	10,041	(9,279)
Inventories	(107,288)	(116,589)
Prepaid expenses and other current assets	5,655	196,138
Accounts payable	(44,425)	51,788
Accrued expenses	(18,616)	(25,257)
Receipts in advance and other current liabilities	35,315	16,518
Cash flows provided from (used in) operating activities	(325,213)	30,246
Cash flows from investing activities		
Addition to fixed assets	(55,666)	(59,607)
Cash flow (used in) investing activities	(55,666)	(59,607)
Effect of exchange rate changes on cash and cash equivalents	6,215	7,647
Net (decrease) in cash and cash equivalents	(374,664)	(21,714)
Beginning cash and cash equivalents	989,078	1,396,234
Ending cash and cash equivalents	$614,414	$1,374,520
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$6,136	$6,106
Tax paid	-	23,146

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 accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete presentation of the financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Note 2 - 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 3 –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 June 30, 2012, the Company had not experienced any losses on such deposits.

Note 3 –Concentration of Credit Risk

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 June 30, 2012, such losses have been within management's expectations.

For the six months ended June 30, 2012, products sold to the Company's largest customer, accounted for approximately 16.26%. Products purchased from the Company's first two largest suppliers were accounted for approximately 36.10% of the total purchases.

As of June 30, 2012, the largest three customers exceeded 50.20% of the total consolidated accounts receivable balance.

Note 4 – Earnings per share

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net loss attributable to common stockholders	$(84,418)	$(117,445)	$(228,567)	$(142,700)
Weighted average common stock outstanding – Basic and diluted	67,448,890	67,448,890	67,448,890	67,448,890
Earning per share attributable to common stockholder Basic and diluted	$.00	$.00	$.00	$.00

Note 5 – Long term investment

	June 30, 2012	December 31, 2011
Equity method investment – Anteya Technology Corp		
Carrying value of investment at the beginning	$799,131	$797,363
Interest in Anteya's net income	4,198	40,835
Exchange difference	16,695	(39,067)
Carrying value at the end	820,024	799,131
Equity method investment – Fin-Core Corporation		
Carrying value of investment at the beginning	196,087	481,891
Interest in Fin-Core's net loss	-	(135,200)
Impairment for the year	-	(132,799)
Exchange difference	3,091	(17,805)
Carrying value at the end	199,178	196,087
Cost-method investments – Phocos		
At cost	142,038	142,038
	$1,161,240	$1,137,256

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 maintain 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 5 – Long term investment (continued)

The unaudited financial information of Anteya Technology Corp. as of June 30, 2012 and December 31, 2011 and for six months ended June 30, 2012 and 2011 (in US dollars) are as follows:

Balance sheet	June 30, 2012	December 31, 2011
Current assets	$4,809,762	$4,671,187
Non-current assets	1,060,252	1,101,058
Total assets	5,870,014	5,772,245
Current liabilities	2,646,645	2,437,814
Non-current liabilities	930,106	1,097,420
Stockholders' equity	2,293,263	2,237,011
Total stockholders' equity and liabilities	$5,870,014	$5,772,245

	Six months ended June 30,	
Statement of operation	2012	2011
Net sale	$2,671,781	$3,072,336
Cost of goods sold	(2,062,538)	(2,346,772)
Gross profit	609,243	725,564
Operating and non-operating expenses	(585,076)	(581,169)
Net profit	$24,167	$144,395

Note 6 – Inventory

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

	June 30, 2012	December 31, 2011
Finished goods	$928,388	$821,100

Note 7 – 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:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Component of income (loss) before income taxes:				
United States	$(63,138)	$(95,896)	$(112,735)	$138,882
Foreign	(7,264)	(26,809)	(120,635)	3,886
(Loss) income before income taxes	$(70,402)	$(122,705)	$(233,370)	$142,768
Provision for income taxes				
Current				
U.S. federal	-	-	-	-
State and local	-	-	-	-
Foreign	$(1,096)	$5,260	$4,581	68
Income tax benefit (provision)	$(1,096)	$5,260	$4,581	68

Note 8 – Accrued expenses

	June 30, 2012	December 31, 2011
Salaries and allowance	$18,783	$19,987
Insurance	-	8,150
Tax payable	-	11,040
Others	11,676	9,898
	$30,459	$49,075

Note 9 - Bank short term debt

	June 30, 2012	December 31, 2011
Bank loan payable to Taiwan banks	$402,468	$396,223

The Company signed revolving credit agreements with a lending institution. The interest rate on short-term borrowings outstanding as of June 2012 ranges from 3.023% to 3.16% per annum, as of December 31, 2011, interest rate ranges from 2.946% to 3.175% per annum. The short term debt is secured by:

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

Note 10- Geographic Information

Product revenues for the three and six months ended June 30, 2012 and 2011 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Customers based in:				
Europe	$352,873	$567,743	$756,096	$1,210,041
Asia	68,030	46,903	149,118	83,108
United States	187,524	337,379	366,970	471,537
Others	92,508	129,419	139,967	270,431
	$700,935	$1,081,444	$1,412,151	$2,035,117

Note 11 – Related Party Transactions

The Company has recorded expenses for the following related party transactions for three months ended June 30, 2012 and 2011:

	Six months ended June 30,	
	2012	2011
Purchase from Anteya Technology Corp	$589,395	$957,482
Purchase from Fin-Core Corporation	-	91,508
Rent paid to Mr. Wei-Rur Chen	24,278	24,762
Sale to Anteya Technology Corp	-	1,073
Sale to Fin-Core Corporation	-	12,639

Note 11 – Related Party Transactions (continued)

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

	June 30, 2012	December 31, 2011
Liabilities:		
Anteya Technology Corp	$268,716	$298,887

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 June 30, 2012. 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 effective interest rate is 0.19% and the interest paid to Mr. Chen is $48 for three months ended June 30, 2012.

Note 12 – Commitments

	Six months ended June 30, 2012	Six months ended June 30, 2011
Rent expenses	$61,483	$65,126

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 June 30, 2011 are as follows:

2012 remaining 6 months	53,376
2013	81,549
2014	48,296
2015	41,052
	$224,273

Note 13– Subsequent Events

The Company evaluated all events subsequent to June 30, 2012 through the date of the issuance of the financial statements, there are no other significant or material transactions to be reported.