COLORSTARS GROUP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2013

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CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

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

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and equivalents	$307,260	$406,100
Accounts receivable, net of allowance for doubtful accounts of $66,487 at June 30, 2013 and $42,227 at December 31, 2012	155,906	189,468
Inventory	788,488	802,848
Prepaid expenses and other current assets	133,476	124,104
Total current assets	1,385,130	1,522,520
Equipment, net of accumulated depreciation	155,461	181,945
Investments	307,870	479,026
Deferred income tax assets	89,000	89,000
Intangible assets	549	1,272
Total assets	$1,938,010	$2,273,763
Liabilities and stockholders' equity		
Current liabilities:		
Short term loan	$400,454	$413,351
Accounts payable	239,152	305,855
Accrued expenses	33,319	27,578
Receipts in advance and other current liabilities	12,078	16,606
Total current liabilities	685,003	763,390
Stockholders' equity		
Common Stock –Par Value $0.001 67,448,890 shares issued and outstanding at June 30, 2013 and December 31, 2012	67,449	67,449
Additional paid in capital	3,112,230	3,112,230
Accumulated other comprehensive income	268,123	332,722
Accumulated deficit	(2,194,795)	(2,002,028)
Total stockholders' equity	1,253,007	1,510,373
Total liabilities and stockholders' equity	$1,938,010	$2,273,763

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

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

	Three months ended June 30, 2013	2012
Net sales	$479,484	$700,935
Cost of goods sold	326,569	472,310
Gross profit	152,915	228,625
Operating expenses		
Selling, general and administrative	251,507	306,211
Research and development	15,453	26,330
Total operating expenses	266,960	332,541
Loss from operations	(114,045)	(103,916)
Other income (expenses)		
Interest expense (net)	(2,821)	(2,710)
Share of investee's operating results (net)	18,248	14,517
Gain (loss) on foreign exchange, net	(10,039)	6,661
Gain disposal of investment	52,159	-
Other, net	4,541	2,069
Loss before income tax	(51,957)	(83,379)
Income tax benefit (expense)	2,123	(1,103)
Net loss	(49,834)	(84,482)
Other comprehensive income (loss), net		
Translation adjustment	4,005	-
Total comprehensive loss	$(45,829)	$(84,482)
Earnings per share attributable to common stockholders:		
Basic and diluted per share	$0.00	$0.00
Gain on disposal of investment		
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 STATEMENTS OF OPERATION AND COMPREHENSIVE LOSS
(UNAUDITED)
(IN US$)

	Six months ended June 30, 2013	2012
Net sales	$936,493	$1,412,151
Cost of goods sold	616,162	941,676
Gross profit	320,331	470,475
Operating expenses		
Selling, general and administrative	468,266	634,845
Research and development	31,155	52,163
Total operating expenses	499,421	687,008
Loss from operations	(179,090)	(216,533)
Other income (expenses)		
Interest expense (net)	(6,081)	(5,888)
Share of investee's operating results (net)	(85,122)	4,220
Gain (loss) on foreign exchange, net	25,066	(19,411)
Gain on disposal of investment	52,159	-
Other, net	5,942	4,400
Loss before income tax	(187,126)	(233,212)
Income tax benefit (expense)	(5,641)	4,581
Net loss	$(192,767)	$(228,631)
Other comprehensive income (loss), net		
Translation adjustment	(64,598)	40,239
Total comprehensive loss	$(45,829)	$(188,392)
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, 2013	2012
Cash flows from operating activities		
Net (loss)	$(49,834)	$(84,482)
Depreciation and amortization	10,402	9,438
Gain on disposal of investment	(52,159)	-
Provision for doubtful accounts	23,340	1,796
Share of investment loss	(18,248)	(14,488)
Changes in operating assets and liabilities:		
Other assets	-	(33,539)
Accounts receivable	(6,855)	(9,906)
Inventories	(3,876)	(11,201)
Prepaid expenses and other current assets	(14,495)	11,928
Accounts payable	70,032	(4,546)
Accrued expenses	(2,223)	858
Receipts in advance and other current liabilities	(14,135)	39,894
Cash flows (used in) operating activities	(58,051)	(94,248)
Cash flows from investing activities		
Addition to fixed assets	-	(4,581)
Proceed from sales of investment	105,840	-
Cash flows provided from (used in) investing activities	105,840	(4,581)
Effect of exchange rate changes on cash and cash equivalents	(25)	341
Net increase (decrease) in cash and cash equivalents	47,764	(98,488)
Beginning cash and cash equivalents	259,496	712,902
Ending cash and cash equivalents	307,260	$614,414
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$2,935	$3,070
Tax paid	-	-

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

COLORSTARS GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)
(IN US$)

	For six months ended June 30, 2013	2012
Cash flows from operating activities		
Net (loss)	$(192,767)	$(228,631)
Depreciation and amortization	21,890	20,880
Gain on disposal of investment	(52,159)	-
Provision for doubtful accounts	25,829	6,012
Share of investment loss	85,121	(4,220)
Changes in operating assets and liabilities:		
Other assets	-	(33,539)
Accounts receivable	7,734	10,041
Inventories	14,361	(107,288)
Prepaid expenses and other current assets	(9,372)	39,194
Accounts payable	(66,703)	(44,425)
Accrued expenses	5,740	(18,552)
Receipts in advance and other current liabilities	(4,528)	35,315
Cash flows (used in) operating activities	(164,854)	(325,213)
Cash flows from investing activities		
Addition to fixed assets	-	(55,666)
Proceed from sale of investment	105,840	-
Cash flows provided from (used in) investing activities	105,840	(55,666)
Effect of exchange rate changes on cash and cash equivalents	(39,826)	6,215
Net (decrease) in cash and cash equivalents	(98,840)	(374,664)
Beginning cash and cash equivalents	406,100	989,078
Ending cash and cash equivalents	307,260	$614,414
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	6,197	$6,200
Tax paid	5,641	-

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

Basis of Presentation - The accompanying unaudited consolidated financial statements of ColorStars Group and Color Stars Inc. ("the Company") 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 statement of the financial position, results of operations and cash flows for the six months ended June 30, 2013 and 2012 have been included. 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, 2012. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for any subsequent interim period or for the year ending December 31, 2013.

Basis of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Note 2 - Recent Adopted Accounting Pronouncements

Income tax - In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU No. 2013-11 is a new accounting standard on the financial statement presentation of unrecognized tax benefits. The new standard provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new standard becomes effective for the Company on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is currently assessing the impacts of this new standard.

Note 3 - Concentration of 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, 2013, 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 June 30, 2013, such losses have been within management's expectations.

For the six months ended June 30, 2013, products sold to the Company's largest customer, accounted for approximately 18.61%. Products purchased from the Company's first two largest suppliers were accounted for approximately 82.99% of the total purchases.

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,	
	2013	2012	2013	2012
Net loss attributable to common stockholders	$(49,834)	$(84,482)	$(192,767)	$(228,631)
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

COLORSTARS GROUP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Accumulated Other Comprehensive loss

The components of accumulated other comprehensive losses were as follows:

	Foreign currency translation
Balance, December 31, 2012	$332,722
Foreign currency translation, net of taxes	(68,604)
Balance, March 31, 2013	264,118
Foreign currency translation, net of taxes	4,005
Balance, June 30, 2013	$268,123

Note 6 - Long Term Investments

	June 30, 2013	December 31, 2012
Equity method investment – Anteya Technology Corp		
Carrying value of investment at the beginning	$425,345	$799,131
Share of associate's loss	(85,122)	(378,173)
Exchange difference	(32,353)	4,387
Carrying value at the end	307,870	425,345
Equity method investment – Fin-Core Corporation		
Carrying value of investment at the beginning	-	196,087
Impairment for the year	-	(204,563)
Exchange difference	-	8,476
Carrying value at the end	-	-
Cost-method investments – Phocos		
At cost	53,681	142,038
Impairment for the year	-	(88,357)
Disposal	(53,681)	-
Carrying value at the end	-	53,681
Net value	$307,870	$479,026

Note 6 - Long Term Investments (continued)

Anteya Technology Corp (Anteya) is a private company incorporated in Taiwan. The equity interest held by the Company is 20%.

Fin-Core Corporation (FCC) is a private company incorporated in Taiwan. The number of shares of Fin-Core held by the Company is 57,143 shares, 5.19% at June 30, 2013 and December 31, 2012. The Company recorded the investment in Fin-Core Corporation at cost.

Phocos AG is a private company incorporated in Germany. On May 27, 2013, the Company sold all of its shares to third party. The total proceeds were EURO84,000 or USD105,840. The sale of the investment resulted in a USD52,159 gain.

The unaudited financial information of Anteya Technology Corp. as of June 30, 2013 and December 31, 2012 and for six months ended June, 2013 and 2012 (in US dollars) are as follows:

Balance sheet	June 30, 2013	December 31, 2012
Current assets	$4,039,195	$4,634,083
Non-current assets	856,569	730,201
Total assets	4,895,764	5,364,284
Current liabilities	2,703,231	2,475,513
Non-current liabilities	553,619	762,048
Stockholders' equity	1,638,914	2,126,723
Total stockholders' equity and liabilities	4,895,764	$5,364,284

Statement of operation	Six months ended June 30, 2013	2012
Net sale	$1,547,428	$2,671,781
Cost of goods sold	(1,340,105)	(2,062,538)
Gross profit	207,323	609,243
Operating and non-operating expenses	(571,562)	(585,076)
Net profit (loss)	$(364,239)	$24,167

Note 7 - Inventory

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

	June 30, 2013	December 31, 2012
Finished goods	$788,488	$802,848

Note 8 - 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 2013 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 2013 (inclusive).

The income tax provision information is provided as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Loss before provision for income taxes	$(51,957)	$(83,379)	$(187,126)	$(233,212)
Provision for income taxes	$(2,183)	$(1,103)	$5,641	$4,581

Note 9 - Accrued Expenses

	June 30, 2013	December 31, 2012
Salaries and allowance	$13,763	$16,351
Insurance	6,198	7,138
Tax payable	5,945	-
Others	7,413	4,089
	$33,319	$27,578

Note 10 - Bank Short Term Debt

	June 30, 2013	December 31, 2012
Bank loan payable to Taiwan banks	$400,454	$413,351

The Company signed revolving credit agreements with a lending institution. The interest rate on short-term borrowings outstanding as of June 30, 2013 is 3.146% per annum, as of December 31, 2012, interest rate ranges from 3.15% to 3.166% per annum. The short term debt is secured by:

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

Note 11 - Geographic Information

Product revenues for the six months ended June 30, 2013 and 2012 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Customers based in:				
Europe	$258,934	$352,873	$482,542	$756,096
Asia	72,339	68,030	177,274	149,118
United States	117,812	187,524	198,481	366,970
Others	33,231	92,508	78,196	139,967
	$482,316	$700,935	$936,493	$1,412,151

Note 12 - Related Party Transactions

The Company has recorded expenses for the following related party transactions for three months ended June 30, 2013 and 2012:

	Six months ended March 31,	
	2013	2012
Purchase from Anteya Technology Corp	$395,992	$589,395
Rent paid to Mr. Wei-Rur Chen	24,264	24,278

COLORSTARS GROUP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - 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, 2013	December 31, 2012
Liabilities:		
Anteya Technology Corp	$162,543	$148,798

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 a related party company Anteya Technology Corp. The Company owns 20% of the outstanding common stock of Anteya Technology Corp as of June 30, 2013. All transactions were at market-based prices.

Note 13 - Commitments

	Six months ended June 30, 2013	Six months ended June 30, 2012
Rent expenses	$62,626	$61,483

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, 2013 are as follows:

2013	28,032
2014	48,055
2015	40,846
	$116,933

Note 14 - Subsequent Events

The Company evaluated all events subsequent to June 30, 2013 through the date of the issuance of the financial statements and there are no other significant or material transactions to be reported.