# COLORSTARS GROUP AND SUBSIDIARIES

## AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2013 and 2012**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT**

**To the Board of Directors and Stockholders of ColorStars Group:**

**I have audited the consolidated balance sheets of ColorStars Group as of December 31, 2013 and 2012 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.**

**Michael F. Albanese, CPA**

**Parsippany, New Jersey**
**March 28, 2014**

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

| Assets | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current assets: | | |
| Cash and equivalents | $186,957 | $406,100 |
| Accounts receivable, net of allowance for doubtful accounts of $59,307 and $42,227 at December 31, 2013 and 2012 | 126,025 | 189,468 |
| Inventory | 793,335 | 802,848 |
| Prepaid expenses and other current assets | 65,459 | 124,104 |
| Total current assets | 1,171,776 | 1,522,520 |
| Equipment, net of accumulated depreciation | 153,062 | 181,945 |
| Investments | 223,990 | 479,026 |
| Deferred income tax | - | 89,000 |
| Intangible assets | 139 | 1,272 |
| Total assets | $1,548,967 | $2,273,763 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Short term loan | $402,212 | $413,351 |
| Accounts payable | 187,443 | 305,855 |
| Accrued expenses | 20,913 | 27,578 |
| Receipts in advance and other current liabilities | 8,853 | 16,606 |
| Total current liabilities | 619,421 | 763,390 |
| Stockholders' equity | | |
| Common Stock –Par Value $0.001 67,448,890 shares issued and outstanding at December 31, 2013 and 2012 | 67,449 | 67,449 |
| Additional paid in capital | 3,112,230 | 3,112,230 |
| Accumulated other comprehensive income | 261,108 | 332,722 |
| Accumulated deficit | (2,511,241) | (2,002,028) |
| Total stockholders' equity | 929,546 | 1,510,373 |
| Total liabilities and stockholders' equity | $1,548,967 | $2,273,763 |

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

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

| | For the years ended December 31, 2013 | 2012 |
|---|---|---|
| Net sales | $1,699,611 | $2,736,466 |
| Cost of goods sold | 1,132,053 | 1,883,714 |
| Gross profit | 567,558 | 852,752 |
| Operating expenses | | |
| Selling, general and administrative | 801,655 | 1,226,243 |
| Research and development | 81,391 | 106,984 |
| Total operating expenses | 883,046 | 1,333,227 |
| Loss from operations | (315,488) | (480,475) |
| Other income (expenses) | | |
| Interest expense (net) | (11,970) | (12,109) |
| Share of investee's operating results (net) | (173,570) | (40,648) |
| Impairment of investment | - | (671,094) |
| Gain on disposal of investment | 52,159 | - |
| Gain (loss) on foreign exchange, net | 27,062 | (44,088) |
| Other, net | 8,202 | 11,242 |
| Loss before income tax | (413,605) | (1,237,172) |
| Income tax (expense) benefit | (95,608) | 6,208 |
| Net loss | $(509,213) | $(1,230,964) |
| 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 |
| Comprehensive loss: | | |
| Net loss | (509,213) | (1,230,964) |
| Other comprehensive loss: | | |
| Foreign currency translation, net of taxes | (71,614) | 106,195 |
| Comprehensive loss | $(580,827) | $(1,124,769) |

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

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

| | Shares | Value | Additional Paid in capital | Accumulated deficit | Accumulated other comprehensive income | Total Stockholder's equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | 67,448,890 | $67,449 | $3,112,230 | $(771,064) | $226,527 | $2,635,142 |
| Foreign currency translation | - | - | - | - | 106,195 | 106,195 |
| Net loss | - | - | - | (1,230,964) | - | (1,230,964) |
| Balance, December 31, 2012 | 67,448,890 | $67,449 | $3,112,230 | $(2,002,028) | $332,722 | $1,510,373 |
| Foreign currency translation | - | - | - | - | (71,614) | (71,614) |
| Net loss | - | - | - | (509,213) | - | (509,213) |
| Balance, December 31, 2013 | 67,448,890 | $67,449 | $3,112,230 | $(2,511,241) | $261,108 | $929,546 |

*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, 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $(509,213) | $(1,230,964) |
| Depreciation and amortization | 44,017 | 46,257 |
| Provision for doubtful accounts | 33,965 | 32,641 |
| Share of associate's operation result | 173,570 | 40,648 |
| Impairment of investment | - | 671,094 |
| Gain on disposal of investment | (52,159) | - |
| Loss on disposal of property | 197 | - |
| Deferred income tax | 89,000 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 29,478 | 76,941 |
| Inventories | 9,513 | 18,251 |
| Prepaid expenses and other current assets | 58,645 | 42,477 |
| Accounts payable | (118,412) | (158,799) |
| Accrued expenses | (6,665) | (21,497) |
| Receipts in advance and other current liabilities | (7,753) | 3,192 |
| Cash flows (used in) operating activities | (255,817) | (479,759) |
| Cash flows from investing activities | | |
| Addition to fixed assets | (22,779) | (67,505) |
| Proceed on disposal of investment | 105,840 | - |
| Proceed on disposal of fixed assets | 3,930 | - |
| Cash flow (used in) investing activities | 86,991 | (67,505) |
| Cash flows from financing activities | | |
| Loan from (paid to) stockholder | - | (100,000) |
| Cash flow (used in) provided from financing activities | - | (100,000) |
| Effect of exchange rate changes on cash and cash equivalents | (50,317) | 64,286 |
| Net (decrease) in cash and cash equivalents | (219,143) | (582,978) |
| Beginning cash and cash equivalents | 406,100 | 989,078 |
| Ending cash and cash equivalents | $186,957 | $406,100 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | $12,177 | $12,608 |
| Income taxes | 929 | 24,645 |

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

## 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.

**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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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, 2013 and 2012, the allowance for doubtful accounts was $56,307 and $42,227 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, 2013 and 2012, the allowance for obsolete inventory was $112,000 and $115,102 respectively.

**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, 2013 and 2012, 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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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.

**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.

**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 4.

**Shipping and Handling Costs** - Shipping and handling costs incurred by the Company 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 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 4 - 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 December 31, 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 December 31, 2013, such losses have been within management’s expectations.

In fiscal year 2013, products sold to the Company’s largest customer, accounted for approximately 33.60% of the total revenue for fiscal year 2013 (2012 – 8.07%). Products purchased from the Company’s largest suppliers, Anteya Technology Corp, accounted for approximately 60.55% of the total purchases for fiscal year 2013 (2012 - 59.51%).

## 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:

| | 2013 | 2012 |
|---|---|---|
| Net (loss) income attributable to common stockholders | $(509,213) | $(1,230,964) |
| Weighted average common stock outstanding - Basic and diluted | 67,448,890 | 67,448,890 |
| Earnings per share attributable to common stockholder<br>Basic and diluted | $.00 | $.00 |

## Note 6 - Accumulated Other Comprehensive loss

The following table includes the changes in accumulated other comprehensive (loss) by component under the ASC on "Comprehensive Income" for the year ended December 31, 2013:

| | Foreign currency translation |
|---|---|
| Balance, December 31, 2012 | $332,722 |
| Foreign currency translation, net of taxes | (71,614) |
| Balance, December 31, 2013 | $261,108 |

## Note 7 – Long term investment

| | 2013 | 2012 |
|---|---|---|
| Equity method investment – Anteya Technology Corp | | |
| Carrying value of investment at the beginning | $425,345 | $799,131 |
| Interest in Anteya's net income | (173,570) | (41,398) |
| Impairment for the year | - | (378,173) |
| Exchange difference | (27,785) | 45,785 |
| Carrying value at the end | 223,990 | 425,345 |
| Equity method investment – Fin-Core Corporation | | |
| Carrying value of investment at the beginning | - | 196,087 |
| Interest in Fin-Core's net loss | - | - |
| Impairment for the year | - | (204,563) |
| Exchange difference | - | 8,476 |
| Carrying value at the end | - | - |
| Cost-method investments – Phocos AG | | |
| At cost | 53,681 | 142,038 |
| Impairment for the year | - | (88,357) |
| Disposed during the year | (53,681) | - |
| Carrying value at the end | - | 53,681 |
| | $223,990 | $479,026 |

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 December 31, 2013 and December 31, 2012. The Company recorded the investment in Fin-Core Corporation at cost, less accumulated impairments.

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.

## Note 7 – Long term investment (continued)

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

| Balance sheet | 2013 | 2012 |
|---|---|---|
| Current assets | $3,655,318 | $4,634,083 |
| Non-current assets | 799,974 | 730,201 |
| Total assets | 4,455,292 | 5,364,284 |
| Current liabilities | 2,891,306 | 2,475,513 |
| Non-current liabilities | 358,049 | 762,048 |
| Stockholders' equity | 1,205,937 | 2,126,723 |
| Total stockholders' equity and liabilities | $4,455,292 | $5,364,284 |

| Statement of operation | 2013 | 2012 |
|---|---|---|
| Net sale | $2,916,794 | $4,820,371 |
| Cost of goods sold | (2,519,478) | (3,795,011) |
| Gross profit | 397,316 | 1,025,360 |
| Operating and non-operating expenses | (1,203,821) | (1,225,526) |
| Net profit (loss) | $(806,505) | $(200,166) |

## Note 8 – Inventory

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

| | 2013 | 2012 |
|---|---|---|
| Finished goods | $793,335 | $802,848 |

**Note 9 – Intangible Assets**

| | 2013 | 2012 |
|---|---|---|
| Intangible assets: | | |
| Amortizable intangible assets | $41,433 | $42,580 |
| Accumulated amortization | (41,294) | (41,308) |
| Total | $139 | $1,272 |

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.

**Note 10 – Equipment**

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

| | 2013 | 2012 |
|---|---|---|
| Plant and equipment: | | |
| Machinery equipment | $172,589 | $177,369 |
| Transportation equipment | 22,664 | 16,879 |
| Office equipment | 141,898 | 145,280 |
| Other | 236 | 242 |
| Total cost | 337,387 | 339,770 |
| Accumulated depreciation: | | |
| Machinery equipment | 86,365 | 63,483 |
| Transportation equipment | 630 | 10,783 |
| Office equipment | 97,094 | 83,317 |
| Other | 236 | 242 |
| Total accumulated depreciation | 184,325 | 157,825 |
| Plant and equipment – net | $153,062 | $181,945 |

Depreciation was $42,913 and $46,257 for the years ended December 31, 2013 and 2012 respectively.

**Note 11 – 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 2012 (inclusive).

The income tax provision information is provided as follows:

| | 2013 | 2012 |
|---|---|---|
| Component of income (loss) before income taxes: | | |
| United States | $(197,231) | $(315,254) |
| Foreign | (216,374) | (921,918) |
| Income (loss) before income taxes | (413,605) | (1,237,172) |
| | | |
| Provision for income taxes | | |
| U.S. federal | - | - |
| State and local | (907) | (800) |
| Foreign | (5,701) | 7,008 |
| Income tax benefit | (6,608) | 6,208 |
| | | |
| Deferred – valuation allowance for deferred tax assets | (89,000) | - |
| | (95,608) | 6,208 |

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, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Federal income taxes at applicable statutory rates | $(144,761) | $(433,010) |
| Adjustment resulting from the tax effect of: | | |
| State income tax | (907) | (800) |
| Foreign tax rate differential | 21,637 | 92,191 |
| Loss with no tax benefit provided | 77,431 | 289,257 |
| Non-deductible expenses and other | 39,992 | 58,570 |
| | (6,608) | 6,208 |

As of December 31, 2013, there was gross U.S. federal net operating loss carried forwards of approximately $670,000, which may be available to offset future federal income tax liabilities. Because it is more likely than not that the Company will not realize its deferred tax assets, it has recorded a full valuation allowance against these assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheet. 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 2027 to 2033.

**Note 12 – Accrued expenses**

| | 2013 | 2012 |
|---|---|---|
| Salaries and allowance | $4,931 | $16,351 |
| Insurance | 11,959 | 7,138 |
| Others | 4,023 | 4,089 |
| | $20,913 | $27,578 |

**Note 13 - Bank short term debt**

| | 2013 | 2012 |
|---|---|---|
| Bank loan payable to Taiwan banks | $402,212 | $413,351 |

The Company signed revolving credit agreements with a lending institution. The interest rate on short-term borrowings outstanding as of December 2013 is 1.94% 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 a director
2. the realty property of spouse of a director

**Note 14- Geographic Information**

Product revenues for the years ended December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Customers based in: | | |
| Europe | $825,137 | $1,420,653 |
| Asia | 336,892 | 458,297 |
| United States | 430,021 | 557,248 |
| Others | 107,561 | 300,268 |
| | $1,699,611 | $2,736,466 |

**Note 15 – Related Party Transactions**

The Company has recorded expenses for the following related party transactions for the year ended December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Purchase from Anteya Technology Corp | $685,407 | $1,125,062 |
| Rent paid to Mr. Wei-Rur Chen | 48,510 | 48,703 |

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

| | 2013 | 2012 |
|---|---|---|
| Liabilities: | | |
| Anteya Technology Corp | $107,498 | $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 December 31, 2013. All transactions were at market-based prices.

**Note 16 – Commitments**

| | 2013 | 2012 |
|---|---|---|
| Rent expenses | $113,158 | $124,024 |

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, 2013 are as follows:

| | |
|---|---|
| 2014 | 72,398 |
| 2015 | 57,114 |
| | $129,512 |

**Note 17– Subsequent Events**

The Company evaluated all events subsequent to December 31, 2013 through the date of the issuance of the financial statements and concluded that there are no significant or material transactions to be reported other than below:

The Company borrowed a short-term loan in sum of NTD3,000,000, equivalent to USD100,000, from Bank SinoPac (located in Taiwan) on March 3, 2014. The interest rate is 1.94% per annum and is due on September 2, 2014. The loan is secured by the property of the spouse of a director.