

Edgar Filing: SOYO GROUP INC - Form 8-K/A

SOYO GROUP INC
Form 8-K/A
July 07, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 2

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): October 24, 2002

SOYO GROUP, INC.

(Exact name of Registrant as Specified in its Charter)

Nevada	333-42036	95-4502724
-----	-----	-----
(State of Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

41484 Christy Street, Fremont, California 94538

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (510) 226-7696

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

This Form 8-K/A contains the financial statements related to the Registrant's acquisition of Soyo, Inc. on October 24, 2002, which acquisition was reported on Form 8-K as filed with the Securities and Exchange Commission on October 30, 2002.

(a) Financial statements of businesses acquired

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Soyo, Inc.
Fremont, California

We have audited the accompanying balance sheet of Soyo, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Edgar Filing: SOYO GROUP INC - Form 8-K/A

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Soyo, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years then ended, in conformity with accounting principles generally accepted in the United States of America.

Malone & Bailey, PLLC
Houston, Texas

July 1, 2002

SOYO, INC. BALANCE SHEETS December 31, 2001 and 2000

	2001	2000
	-----	-----
ASSETS		
Current assets		
Cash	\$ 168,450	\$ 260,868
Certificate of deposit, restricted	1,000,000	--
Accounts receivable, net	9,977,648	9,250,768
Inventories	14,601,420	5,476,381
Note receivable	--	734,911
Income taxes receivable	--	63,000
Prepaid expenses	25,261	24,445
	-----	-----
Total current assets	25,772,779	15,810,373
Property and equipment, net	38,711	45,816
Goodwill, net	389,307	806,412
Deposits	109,000	90,122
	-----	-----
	\$ 26,309,797	\$ 16,752,723
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable:		
Parent	\$ 21,191,294	\$ 14,973,952

Edgar Filing: SOYO GROUP INC - Form 8-K/A

Trade	4,204,343	1,746,982
Accrued expenses	57,853	60,122
Note payable	1,200,000	--
Income taxes payable	75,044	--
	-----	-----
Total current liabilities	26,728,534	16,781,056
	-----	-----
Commitments		
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, \$1.00 par value, 1,000,000		
shares authorized, 500,000 shares issued		
and outstanding	500,000	500,000
Retained earnings (deficit)	(918,737)	(528,333)
	-----	-----
Total stockholders' equity (deficit)	(418,737)	(28,333)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 26,309,797	\$ 16,752,723
	=====	=====

See accompanying summary of accounting policies
and notes to financial statements.

SOYO, INC. STATEMENTS OF OPERATIONS For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	-----	-----	-----
Net revenues	\$ 63,091,190	\$ 62,173,829	\$ 15,494,828
Cost of revenues	58,714,548	59,197,437	14,349,456
	-----	-----	-----
Gross margin	4,376,642	2,976,392	1,145,372
	-----	-----	-----
Costs and expenses:			
General and administrative	3,609,925	2,761,778	1,103,504
Sales and marketing	682,840	447,303	--
Depreciation and amortization	425,950	425,892	27,807
	-----	-----	-----
Total costs and expenses	4,718,715	3,634,973	1,131,311
	-----	-----	-----
Income (loss) from operations	(342,073)	(658,581)	14,061
Other income (expense)			
Interest income	37,576	53,430	--
Other income	13,846	12,447	--
Interest expense	(25,190)	--	--
	-----	-----	-----

Edgar Filing: SOYO GROUP INC - Form 8-K/A

	26,232	65,877	--
	-----	-----	-----
Income (loss) before income taxes	(315,841)	(592,704)	14,061
Provision (benefit) for income taxes	74,563	(70,275)	19,965
	-----	-----	-----
Net loss	\$ (390,404)	\$ (522,429)	\$ (5,904)
	=====	=====	=====
Net loss per share:			
Net loss basic and diluted	\$ (0.78)	\$ (1.04)	\$ (0.01)
	=====	=====	=====
Weighted average shares outstanding:			
Basic and diluted	500,000	500,000	500,000
	=====	=====	=====

See accompanying summary of accounting policies
and notes to financial statements.

SOYO, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2001, 2000 and 1999

	Common stock		Retained	
	Shares	Amount	Earnings	Total
	-----	-----	(Deficit)	-----
Balance, December 31, 1998	500,000	\$ 500,000	\$ --	\$ 500,000
Net loss	--	--	(5,904)	(5,904)
	-----	-----	-----	-----
Balance, December 31, 1999	500,000	500,000	(5,904)	494,096
Net loss	--	--	(522,429)	(522,429)
	-----	-----	-----	-----
Balance, December 31, 2000	500,000	500,000	(528,333)	(28,333)
Net loss	--	--	(390,404)	(390,404)
	-----	-----	-----	-----
Balance, December 31, 2001	500,000	\$ 500,000	\$ (918,737)	\$ (418,737)
	=====	=====	=====	=====

Edgar Filing: SOYO GROUP INC - Form 8-K/A

See accompanying summary of accounting policies
and notes to financial statements.

SOYO, INC.			
STATEMENTS OF CASH FLOWS			
For the Years Ended December 31, 2001, 2000 and 1999			
	2001	2000	1999
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (390,404)	\$ (522,429)	\$ (5,904)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	8,844	425,892	27,807
Amortization of goodwill	417,106	--	--
Provision for doubtful accounts	781,791	25,982	--
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(1,508,671)	(1,663,940)	(7,451,407)
Inventories	(9,125,039)	(67,039)	(2,666,009)
Prepaid expenses	(816)	3,725	(118,292)
Note receivable	734,911	70,560	78,120
Income taxes receivable	63,000	--	--
Deposits	(18,878)	--	--
Increase (decrease) in:			
Accounts payable	2,457,361	(4,373,273)	922,912
Accounts payable - Parent	6,217,342	6,229,793	8,744,159
Accrued expenses	(2,269)	(103,711)	163,833
Income taxes payable	75,044	(82,965)	19,965
	-----	-----	-----
CASH FLOWS USED IN OPERATING ACTIVITIES	(290,678)	(57,405)	(284,816)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,740)	(9,583)	(9,500)
Investment in Soyo, net of cash	--	--	122,172
	-----	-----	-----
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,740)	(9,583)	112,672
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in note payable	1,200,000	--	--
Proceeds from sale of common stock	--	--	500,000
Increase in restricted cash	(1,000,000)	--	--
	-----	-----	-----
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	200,000	--	500,000
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH	(92,418)	(66,988)	327,856
Cash, beginning of period	260,868	327,856	--
	-----	-----	-----
Cash, end of period	\$ 168,450	\$ 260,868	\$ 327,856

Edgar Filing: SOYO GROUP INC - Form 8-K/A

	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	25,190	--	--
Income taxes paid	--	800	--

See accompanying summary of accounting policies
and notes to financial statements.

SOYO, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND BASIS OF PRESENTATION

Nature of Business

Soyo, Inc. ("Soyo") was incorporated in Nevada on October 22, 1998, to engage in the import and wholesale distribution of computer components and peripherals to other distributors in the United States of America.

Soyo is wholly owned by Soyo Computer, Inc. (SCI) of the Republic of China. SCI is the principal vendor of Soyo.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include highly liquid, temporary cash investments having original maturity dates of three months or less. For reporting purposes, cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by using the average cost method. Inventories consist primarily of computer parts and components. Soyo's parent company SCI offers Soyo price protection on certain inventory items purchased from SCI. Accordingly, Soyo has minimal reserves for slow moving or obsolete inventories.

Long-Lived Assets

Property, plant and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives of machinery and equipment (three to seven years). Leasehold improvements are amortized over

Edgar Filing: SOYO GROUP INC - Form 8-K/A

the shorter of the useful life of the improvement or the life of the related lease. Soyo performs reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill

Goodwill relates to the value of a company acquired. The cost of the goodwill is amortized on a straight-line basis over the estimated life of three years. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Revenue Recognition

Soyo recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable.

Product sales are recognized by Soyo generally at the time product is shipped. At the time revenue is recognized, Soyo provides for the estimated cost of product warranties and reduces revenue for estimated product returns. Sales incentives are generally classified as a reduction of revenue and are recognized at the later of when revenue is recognized or the incentive is offered. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Shipping and handling costs are included in cost of goods sold.

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Basic Loss Per Share

Basic loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued FAS 142, Goodwill and Other Intangible Assets. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, Soyo is required to adopt FAS 142 effective January 1, 2002. Application of the non-amortization provisions of FAS 142 for goodwill is expected to result in an increase in operating income of approximately \$389,000 in 2002. Changes in the estimated useful lives of intangible assets are not expected to result in a material effect on net income in 2002. At December 31, 2001, Soyo had goodwill of approximately \$389,000. Pursuant to FAS 142, Soyo will test its goodwill for impairment upon adoption and, if impairment is indicated, record such impairment as a cumulative effect of an accounting change. Soyo is currently evaluating the effect that the adoption may have on its results of operation and financial position.

Edgar Filing: SOYO GROUP INC - Form 8-K/A

NOTE 2 - ACCOUNTS RECEIVABLE

Soyo's trade accounts receivable are shown net of allowance for doubtful accounts of \$653,259 and \$364,199 at December 31, 2001 and 2000 as follows:

	2001	2000
	-----	-----
Accounts receivable	\$ 10,630,907	\$ 9,614,967
Less: Allowance for doubtful accounts	(653,259)	(364,199)
	-----	-----
	\$ 9,977,648	\$ 9,250,768
	=====	=====

Soyo records estimated reductions to revenue for incentive offerings and promotions. If market conditions were to decline, Soyo may take actions to increase customer incentive offerings possibly resulting in an incremental reduction of revenue at the time the incentive is offered. Soyo maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Soyo's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Soyo provides for the estimated cost of product warranties at the time revenue is recognized. While Soyo engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, Soyo's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from Soyo's estimates, revisions to the estimated warranty liability would be required.

NOTE 3 - PROPERTY AND EQUIPMENT:

Components of property and equipment at December 31, 2001 and 2000 are as follows:

	2001	2000
	-----	-----
Automobile	\$ 8,675	\$ 8,675
Computer and equipment	19,651	17,911
Furniture and fixtures	18,516	18,516
Leasehold improvements	9,500	9,500
	-----	-----
	56,342	54,602
Less: accumulated depreciation and amortization	(17,631)	(8,786)
	-----	-----
	\$ 38,711	\$ 45,816
	=====	=====

Depreciation expense totaled \$8,844, \$4,827 and \$0 in 2001, 2000 and 1999, respectively.

NOTE 4 - Related Party Transactions

Substantially all of Soyo's inventories are manufactured by SCI and are purchased either directly from SCI or from an affiliate of SCI.

Soyo is a wholly owned subsidiary of SCI and is dependent on its support. SCI

Edgar Filing: SOYO GROUP INC - Form 8-K/A

manufactures and supplies the majority of, and finances all of Soyo's inventory. SCI has represented to Soyo that for 2002 it will continue to make available such products and financing.

The following transactions have occurred for the years ended December 31:

	2001	2000
	-----	-----
Purchases from SCI	\$ 41,633,352	\$ 52,273,218
Accounts payable	\$ 21,191,294	\$ 14,973,952
Payments to SCI	\$ 35,416,010	\$ 46,043,425

NOTE 5 - Note Payable

Soyo entered into a loan agreement with a financial institution on June 4, 2001. The note bears interest at 5.3% and is secured by a \$1,000,000 certificate of deposit that matures in June 2003. The note payable matures on June 2, 2003. \$200,000 of the note payable is guaranteed by SCI.

NOTE 6 - Income Taxes

For the years ended December 31, 2001, 2000 and 1999, Soyo incurred net losses and, therefore, had no tax liability. The net deferred tax asset generated by the loss carryforward has been fully reserved. The cumulative net operating loss carryforward is approximately \$265,000 at December 31, 2001, and will expire in the years 2019 through 2021.

The provision for federal income taxes consists of the following for the years ended December 31:

	2001	2000	1999
	-----	-----	-----
Current provision (benefit)	\$ 74,563	\$ (70,275)	\$ 19,965
Deferred provision	--	--	--
	-----	-----	-----
	\$ 74,563	\$ (70,275)	\$ 19,965
	=====	=====	=====

Deferred income taxes consist of the following at December 31:

	2001	2000	1999
	-----	-----	-----
Long-term:			
Deferred tax assets	\$ 375,000	\$ 237,000	\$ 2,000
Valuation allowance	(375,000)	(237,000)	(2,000)
	-----	-----	-----
	\$ --	\$ --	\$ --
	=====	=====	=====

The following is a reconciliation of income taxes, calculated at the United States federal statutory rate to the income tax provision (benefit) for the years ended December 31:

	2001	2000	1999
	-----	-----	-----
Provision (benefit) for income			

Edgar Filing: SOYO GROUP INC - Form 8-K/A

taxes at U.S. statutory rate	(34%)	(34%)	34%
Depreciation recorded in excess of tax depreciation	24%	24%	110%
Effect of Section 263a	16%	--	--
Effect of utilization of net operating loss	20%	--	--
Other items, net	(2%)	(2%)	(2%)
	-----	-----	-----
Income tax provision (benefit)	24%	(12%)	142%
	=====	=====	=====

The Company had taxable income (loss) of approximately \$228,000, \$(265,000) and \$201,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 7 - MAJOR CUSTOMERS

The Company had two customers and one customer that accounted for more than 10% of net revenues, and collectively, these customers accounted for 11% and 12% of net revenues for the year ended December 31, 2001 and 13% of net revenues for the year ended December 31, 2000. The breakdown is as follows at December 31:

Customer	2001	2000
-----	-----	-----
A	\$7,122,235	\$8,314,581
B	\$7,319,665	--

NOTE 8 - COMMITMENTS

Soyo currently leases its office and warehouse premises under a five year non-cancelable agreement which expires September 30, 2003. The lease provides for monthly payments of base rent and an unallocated portion of building operating costs.

Minimum future lease rentals are as follows:

December 31,	

2002	\$ 270,717
2003	210,375

	\$ 481,092
	=====

Rent expense was \$308,422, \$298,246 and \$67,456 for the years ended December 31, 2001, 2000 and 1999, respectively.

SOYO, INC.
CONDENSED BALANCE SHEET (Restated - Note 2)
(Unaudited)
September 30, 2002

ASSETS

Current assets

Edgar Filing: SOYO GROUP INC - Form 8-K/A

Cash	\$ 291,537
Certificate of deposit, restricted	1,000,000
Accounts receivable, net	8,770,128
Inventories	9,648,621
Prepaid expenses	42,840

Total current assets	19,753,126

Property and equipment, net	64,130
Goodwill, net	389,307
Deposits	67,918

	\$ 20,274,481
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities	
Accounts payable:	
Parent	\$ 20,587,930
Trade	3,021,312
Accrued expenses	324,246
Note payable	1,200,000

Total current liabilities	25,133,488

Commitments	
STOCKHOLDERS' EQUITY (DEFICIT):	
Common stock, \$1.00 par value, 1,000,000	
shares authorized, 500,000 shares issued	
and outstanding	500,000
Retained earnings (deficit)	(5,359,007)

Total stockholders' equity (deficit)	(4,859,007)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 20,274,481
	=====

See accompanying summary of accounting policies
and notes to financial statements.

SOYO, INC. CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

Three Months Ended September 30,		Nine Months Ended September 30,	
2002	2001	2002	2001
-----	-----	-----	-----
(Restated)		(Restated)	

Edgar Filing: SOYO GROUP INC - Form 8-K/A

	- Note 2)		- Note 2)	
Net revenues	\$ 13,625,372	\$ 13,746,980	\$ 39,924,692	\$ 48,514,465
Cost of revenues	13,485,301	12,746,261	39,972,073	45,544,212
	-----	-----	-----	-----
Gross margin (deficit)	140,071	1,000,719	(47,381)	2,970,253
	-----	-----	-----	-----
Costs and expenses:				
General and administrative	1,243,933	873,323	3,478,898	2,264,062
Sales and marketing	383,372	170,012	1,025,595	516,485
Depreciation and amortization	3,891	85,618	9,633	256,853
	-----	-----	-----	-----
Total costs and expenses	1,631,196	1,128,953	4,514,126	3,037,400
	-----	-----	-----	-----
Loss from operations	(1,491,125)	(128,234)	(4,561,507)	(67,147)
	-----	-----	-----	-----
Other income (expense):				
Interest income	404	9,992	42,204	36,783
Other income	--	--	55,225	4,855
Interest expense	(8,863)	(8,108)	(37,871)	(12,878)
	-----	-----	-----	-----
	(8,459)	1,884	59,558	28,760
	-----	-----	-----	-----
Loss before income taxes	(1,499,584)	(126,350)	(4,501,949)	(38,387)
Provision (benefit) for income taxes	--	--	(61,679)	101,595
	-----	-----	-----	-----
Net loss	\$ (1,499,584)	\$ (126,350)	\$ (4,440,270)	\$ (139,982)
	=====	=====	=====	=====
Basic and diluted loss per common share	\$ (3.00)	\$ (0.25)	\$ (8.88)	\$ (0.28)
	=====	=====	=====	=====
Weighted average common shares outstanding	500,000	500,000	500,000	500,000
	=====	=====	=====	=====

See accompanying summary of accounting policies and notes to financial statements.

SOYO, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited) Nine Months Ended September 30,
2002 and 2001

2002	2001
-----	-----
(Restated - Note 2)	(Restated - Note 2)

Edgar Filing: SOYO GROUP INC - Form 8-K/A

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (4,440,270)	\$ (139,982)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,633	256,853
Provision for doubtful accounts	1,225,001	250,000
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(17,481)	363,648
Inventories	4,952,799	(6,075,877)
Prepaid expenses and other assets	23,503	(34,572)
Note receivable	--	734,911
Increase (decrease) in:		
Accounts payable	(1,183,031)	(1,151,179)
Accounts payable - Parent	(603,364)	5,831,427
Accrued expenses	266,393	(10,789)
Income taxes payable	(75,044)	163,795
	-----	-----
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	158,139	188,235
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(35,052)	--
	-----	-----
CASH FLOWS USED IN INVENTING ACTIVITIES	(35,052)	--
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in note payable	--	1,200,000
Increase in restricted cash	--	(1,000,000)
	-----	-----
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	--	200,000
	-----	-----
NET INCREASE IN CASH	123,087	388,235
Cash, beginning of period	168,450	260,868
	-----	-----
Cash, end of period	\$ 291,537	\$ 649,103
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 34,788	\$ 12,878
Income taxes paid	--	--

See accompanying summary of accounting policies and notes to financial statements.

Edgar Filing: SOYO GROUP INC - Form 8-K/A

(Unaudited)
September 30, 2002

Note 1 - Presentation

The condensed balance sheet of the Company as of September 30, 2002, the related condensed statements of operations for the three and nine months ended September 30, 2002 and 2001 and the condensed statements of cash flows for the nine months ended September 30, 2002 and 2001 included in the condensed financial statements have been prepared by the Company without audit. In the opinion of management, the accompanying condensed financial statements include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results of operations for the full year or any other interim period. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year 2001 as separately provided have been omitted.

Note 2 - Restatement

At December 31, 2002, the Company reviewed the collectibility of its accounts receivable, particularly in light of the deterioration in its business operations during the three months ended December 31, 2002, and increased the provision for doubtful accounts by \$1,939,694, to \$2,009,218 for the year ended December 31, 2002, as compared to \$69,524 as originally reported for the nine months ended September 30, 2002. With respect to the \$2,009,218, the Company determined that \$700,000 was applicable to the three months ended March 31, 2002, \$70,624 was applicable to the three months ended June 30, 2002, \$454,377 was applicable to the three months ended September 30, 2002, and \$784,217 was applicable to the three months ended December 31, 2002.

At December 31, 2002, the Company also reviewed the realizability of its inventory, and reduced the carrying amount by \$2,123,307, of which \$1,500,000 was applicable to the three months ended March 31, 2002, \$200,001 was applicable to the three months ended June 30, 2002, and \$423,306 was applicable to the three months ended December 31, 2002.

The Company has revised its unaudited financial statements for the three months and nine months ended September 30, 2002 to reflect the \$1,225,001 provision for doubtful accounts and the \$1,700,001 inventory write-down applicable to such interim periods.

The Company also revised its unaudited statement of cash flows for the nine months ended September 30, 2001 to reflect a \$1,000,000 increase in restricted cash.

A summary of the effect of these adjustments is as follows:

Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
-----	-----

Edgar Filing: SOYO GROUP INC - Form 8-K/A

Net loss, as reported	\$	(1,050,992)	\$	(1,555,174)
Adjustments:				
Provision for doubtful accounts		(454,377)		(1,225,001)
Inventory write-down		--		(1,700,001)
Other		5,785		39,906
		-----		-----
Net loss, as revised	\$	(1,499,584)	\$	(4,440,270)
		=====		=====

Basic and diluted loss per common share:

As reported	\$	(2.10)	\$	(3.11)
Adjustments:				
Provision for doubtful accounts		(0.91)		(2.45)
Inventory write-down		--		(3.40)
Other		0.01		.08
		-----		-----
As adjusted	\$	(3.00)	\$	(8.88)
		=====		=====

Weighted average common shares outstanding		500,000		500,000
		=====		=====

(b) Pro Forma Financial information

Pro Forma Condensed Consolidated Balance Sheet

The following pro forma balance sheet has been derived from the balance sheet of Vermont Witch Hazel Company, Inc. ("Vermont") at July 31, 2002 and adjusts such information to give effect to the acquisition of Soyo, Inc. ("Soyo"), as if the acquisition had occurred at December 31, 2001. The pro forma balance sheet is presented for informational purposes only and does not purport to be indicative of the financial condition that would have resulted if the acquisition had been consummated at December 31, 2001. The pro forma balance sheet should be read in conjunction with the notes thereto and the Company's financial statements and related notes thereto contained elsewhere in this document.

Since Vermont's balance sheet is insignificant, a pro forma condensed consolidated balance sheet is essentially the same as Soyo's balance sheet, and is presented below.

	Vermont 7/31/02	Soyo 12/31/01	Adjustments	Pro Forma
	-----	-----	-----	-----
Current Assets:				
Cash	\$ --	\$ 168,450	\$ --	\$ 168,450
Certificate of deposit, restricted	--	1,000,000	--	1,000,000
Accounts receivable, net	--	9,977,648	--	9,977,648

Edgar Filing: SOYO GROUP INC - Form 8-K/A

Inventories	--	14,601,420	--	14,601,4
Prepaid expenses	--	25,261	--	25,2
	-----	-----	-----	-----
Total current assets	--	25,772,779	--	25,772,7
Property and equipment, net	--	38,711	--	38,7
Goodwill	--	389,307	--	389,3
Deposits	--	109,000	--	109,0
	-----	-----	-----	-----
\$	--	\$ 26,309,797	--	\$ 26,309,7
	=====	=====	=====	=====
Current Liabilities:				
Accounts payable:				
Parent	\$ --	\$ 21,191,294	--	\$ 21,191,2
Trade	--	4,204,343	--	4,204,3
Accrued expenses	--	57,853	--	57,8
Note payable	--	1,200,000	--	1,200,0
Income taxes payable	--	75,044	--	75,0
	-----	-----	-----	-----
Total current liabilities	--	26,728,534	--	26,728,5
	-----	-----	-----	-----
Stockholders' Equity (Deficit):				
Preferred stock, \$0.001 par value,				
10,000,000 shares authorized,				
1,000,000 shares issued and				
outstanding	--	--	1,000	1,0
Common stock, \$0.001 par value,				
75,000,000 shares authorized,				
40,000,000 shares issued and				
outstanding	668,042	500,000	(1,128,042)	40,0
Additional paid-in capital	--	--	459,000	459,0
Accumulated deficit	(668,042)	(918,737)	668,042	(918,7
	-----	-----	-----	-----
Net stockholders' equity (deficit)	--	(418,737)	(418,737)	
	-----	-----	-----	-----
\$	--	\$ 26,309,797	\$	\$ 26,309,7
	=====	=====	=====	=====

Notes to Pro Forma Condensed Consolidated Balance Sheet:

- (1) Purchaser "Ming Tung Chok and Nancy Chu" paid \$300,000 to seller for 6,026,798 shares or 51% of the outstanding common stock of Vermont.
- (2) Issuance of 1,000,000 shares of convertible preferred stock and 28,182,750 shares of common stock of Vermont for all of the outstanding stock of Soyo.

After the reorganization and stock purchase, the combined entity will have 40,000,000 shares of common stock and 1,000,000 shares of convertible preferred stock outstanding.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Edgar Filing: SOYO GROUP INC - Form 8-K/A

SOYO GROUP, INC.

Date: June 24, 2003

By: /s/ Ming Tung Chok

Name: Ming Tung Chok

Title: President, Chief Executive Officer
and Director