SOYO GROUP INC
Form 10-Q
August 13, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended June 30, 2007

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

For the transition period from _________________ to __________________

Commission File Number 333-42036

SOYO GROUP, INC.
(Exact Name of Registrant as specified in its Charter)

Nevada	95-4502724
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1420 South Vintage Avenue, Ontario, California 91761-3646
(Address of Principal Executive Offices) (Zip Code)

(909) 292-2500
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock as of the latest practicable date.

As of August 10, 2007 there were 49,039,156 shares Outstanding.

Documents Incorporated by Reference: None

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PART I

PART II

SOYO Group, Inc. and Subsidiary
Condensed Consolidated Balance Sheets

	June 30 2007	December 31 2006
	(Unaudited)	(Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,084,886	$ 1,501,040
Accounts receivable, net of allowance for doubtful accounts of $513,996 and $388,958at June 30, 2007 and December 31, 2006, Respectively	21,927,668	16,467,135
Inventories	11,061,681	7,792,621
Prepaid expenses	29,661	36,633
Deferred income tax assets	903,837	177,177
Deposits	5,037,389	243,095
Total current assets	40,045,122	26,217,701
Property and equipment	729,854	711,015
Less: accumulated depreciation and amortization	(205,000)	(159,300)
		551,715
		524,854
Total Assets	$ 40,569,976	$ 26,769,416
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 15,832,366	$ 16,073,617
Accrued liabilities	632,349	539,767
Business loan	19,571,727	3,588,403
Short term loan	--	100,000
Total current liabilities	36,036,442	20,301,787
Long term payable	--	3,735,198
Total liabilities	36,036,442	24,036,985
EQUITY		
Class B Preferred stock, $0.001 par value, authorized - 10,000,000 shares, Issued and outstanding - 2,797,738 shares in 2007 and 2006	2,045,897	1,918,974

Preferred stock backup withholding	(188,022)	(149,945)
Common stock, $0.001 par value.		
Authorized - 75,000,000 shares, issued and outstanding	--	
49,025,511 shares (48,681,511 shares - 2006)	49,039	49,026
Additional paid-in capital	18,832,573	17,866,531
Accumulated deficit	(16,205,953)	(16,952,155)
Total shareholders' equity	4,533,534	2,732,431
Total Liabilities and Shareholders' Equity	$ 40,569,976	$ 26,769,416

See accompanying notes to unaudited condensed consolidated financial statements.

SOYO Group, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30	
	2007	2006
Net revenues	$ 24,202,395	$ 10,787,515
Cost of revenues	20,399,303	8,480,762
Gross margin	3,803,092	2,306,753
Costs and expenses:		
Sales and marketing	1,124,882	322,127
General and administrative	2,168,198	1,269,686
Bad debts	125,063	53,184
Depreciation and amortization	22,409	26,574
Total cost and expenses	3,440,552	1,671,571
Income (loss) from operations	362,540	635,182
Other income (expenses):		
		635,182
Interest income	17,409	3,360
Interest expense	(322,166)	(78,082)
Other income (expenses)	(16,876)	754
Other income (expenses) - net	(321,633)	(73,968)
Income before provision (benefit) for income taxes	40,907	561,214
Provision (benefit) for income taxes	--	--
Current income tax	129,775	--
Deferred income tax	(439,802)	--
Net income	350,934	561,214
Less: Dividends on Convertible Preferred Stock	(65,160)	(52,598)

Net income attributable to common shareholders	$ 285,774	$ 508,616
Net income per common share - basic and diluted	$0.01/$0.01	$0.01/$0.01
Weighted average number of shares of common stock outstanding - basic and diluted	49,039,156/ 56,541,914	48,987,511/ 59,365,449

See accompanying notes to unaudited condensed consolidated financial statements.

SOYO Group, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

	Six months ended June 30	
	2007	2006
Net revenues	$ 38,893,505	$ 22,335,702
Cost of revenues	32,482,217	18,377,861
Gross margin	6,411,288	3,957,841
Costs and expenses:		
Sales and marketing	1,715,738	397,013
General and administrative	3,746,372	2,754,679
Bad debts	126,501	103,184
Depreciation and amortization	45,700	52,390
Total cost and expenses	5,634,311	3,307,266
Income from operations	776,977	650,575
Other income (expenses):		
Interest income	48,794	6,607
Interest expense	(381,881)	(150,469)
Other income (expenses)	(104,566)	5,285
Other income (expenses) - net	(437,653)	(138,577)
Income before provision (benefit) for income taxes	339,324	511,998
Provision (benefit) for income taxes		
Current income tax	192,860	--
Deferred income tax	(726,660)	--

Net income	873,124	511,998
Less: Dividends on Convertible Preferred Stock	126,923	102,454
Net income (loss) attributable to common shareholders	$ 746,201	$ 409,544
Net per common share - basic and diluted	$0.02/$0.02	$0.01/$0.01
Weighted average number of shares of common stock outstanding - basic and diluted	49,039,156/ 56,541,914	48,987,511/ 59,365,449

See accompanying notes to unaudited condensed consolidated financial statements.

SOYO Group, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30	
	2007	2006
OPERATING ACTIVITIES		
Net Income	$ 873,124	$ 511,998
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and Amortization	45,700	52,390
Non cash payments for director's compensation	--	24,570
Non cash payments for public relations and promotion	6,825	82,770
Stock based compensation	959,230	271,560
Bad debts	126,501	103,184
Payment of long-term debt	(3,735,198)	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(5,587,034)	(491,881)
Inventories	(3,269,060)	4,102,930
Prepaid expenses	6,972	20,984
Deposits	(4,794,294)	(90,769)

Deferred income tax asset	(726,660)	--
Increase (Decrease) in:		
Accounts payable	(241,251)	(3,437,067)
Accrued liabilities	92,582	(1,020,232)
Net cash provided by (used in) operating activities	(16,242,562)	130,437
INVESTING ACTIVITIES		
Purchase of property and equipment	18,839)	(105,084)
Net cash used in investing activities	(18,839)	(105,084)
FINANCING ACTIVITIES		
Advances from Officers, Directors, Shareholders	--	(65,000)
Proceeds from business loan-net	15,983,324	--
Payment of backup withholding tax on accreted dividends on preferred stock	(38,077)	(30,736)
Payment of short-term loan	(100,000)	--
Net cash provided by (used in) financing activities	15,845,247	(95,736)
CASH AND CASH EQUIVALENTS		
Net Increase (Decrease)	(416,154)	(70,383)
At beginning of Period	1,501,040	828,294
At End of Period	$ 1,084,886	$ 757,911

Supplemental disclosure of cash flow information		
Cash paid for interest	$ 381,881	
Cash paid for income taxes	--	
Non cash investing and financing activities		
Accretion of discount on Class B preferred stock	126,923	102,454
Director's Compensation	--	24,570
Stock Option Compensation	959,230	271,560

See accompanying notes to unaudited condensed consolidated financial statements.

SOYO Group, Inc. and Subsidiary
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Six Months Ended June 30, 2007 and 2006

1. Organization and Basis of Presentation

Organization - Effective October 24, 2002, Vermont Witch Hazel Company, Inc., a Nevada corporation ("VWHC"), acquired SOYO, Inc., a Nevada corporation ("SOYO Nevada"), from SOYO Computer, Inc., a Taiwan corporation ("SOYO Taiwan), in exchange for the issuance of 1,000,000 shares of convertible preferred stock and 28,182,750 shares of common stock, and changed its name to SOYO Group, Inc. ("SOYO"). The 1,000,000 shares of preferred stock were issued to SOYO Taiwan and the 28,182,750 shares of common stock were issued to certain members of SOYO Nevada management.

Subsequent to this transaction, SOYO Taiwan maintained an equity interest in SOYO, continued to be the primary supplier of inventory to SOYO, and was a major creditor. In addition, there was no change in the management of SOYO and no new capital invested, and there was a continuing family relationship between certain members of the management of SOYO and SOYO Taiwan. As a result, this transaction was accounted for as a recapitalization of SOYO Nevada, pursuant to which the accounting basis of SOYO Nevada continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of SOYO Nevada are now the historical financial statements of the Company.

In conjunction with this transaction, SOYO Nevada transferred $12,000,000 of accounts payable to SOYO Taiwan to long-term payable, without interest, due December 31, 2005. During the three months ended March 31, 2004, the Company agreed with a third party to convert the long-term payable into convertible preferred stock.

On December 9, 2002, SOYO's Board of Directors elected to change SOYO's fiscal year end from July 31 to December 31 to conform to SOYO Nevada's fiscal year end.

On October 24, 2002, the primary members of SOYO Nevada management were Ming Tung Chok, the Company's President, Chief Executive Officer and Director, and Nancy Chu, the Company's Chief Financial Officer. Ming Tung Chok and Nancy Chu are husband and wife. Andy Chu, the President and major shareholder of SOYO Taiwan, is the brother of Nancy Chu.

Unless the context indicates otherwise, SOYO and its wholly-owned subsidiary, SOYO Nevada, are referred to herein as the "Company".

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements include the accounts of SOYO and SOYO Nevada. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, and with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X.

Interim Financial Statements - The accompanying interim unaudited condensed consolidated financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at June 30, 2007, the results of operations for the three and six months ended June 30, 2007 and 2006, and cash flows for the six months ended June 30, 2007 and 2006. The condensed consolidated balance sheet as of December 31, 2006 is derived from the Company's audited condensed consolidated financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these condensed consolidated financial statements are adequate to make the information presented therein not misleading. For further information, refer to the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2007. The largest part of the Company's business, the importing and resale of consumer electronic products, is a seasonal business. The busiest time of the year is the holiday season, which occurs at the end of the year. Accordingly, sales for the year should improve as the year passes, culminating in strongest sales in the fourth quarter.

Business - The Company sells products under four different product lines: 1) Computer Components and Peripherals; 2) Consumer Electronics; 3) Communications Equipment and Services; and 4) Furniture.

The Company began selling furniture under the Levello brand name during the second quarter of 2007. A series of wood and glass tables and stands, the Levello products are meant to enhance the physical appearance of the Company's consumer electronics products. The Levello furniture is a series of pieces that can be sold independently, or bundled with large screen televisions. During the initial product roll out during the second quarter, the Company began selling the Levello series to Costco.com, as well as furniture distributors in the United States and Mexico.

During the second quarter of 2007, the Company discussed with multiple third parties the possibility of selling the VoIP division. The Company's intent is to sell all of the assets of the division. As of the date of this report, the Company is still negotiating the potential sale, and there is no guarantee the sale will be completed in the near future.

The Company's products are sold to distributors and retailers primarily in North and South America.

SOYO Group Inc. has signed a license agreement with Honeywell Intellectual Properties Inc. and Honeywell International Inc., effective January 1, 2007, under which SOYO will create and market certain consumer electronics products under the Honeywell Brand. Negotiations were concluded between the parties, and the final agreement was signed by authorized Honeywell Executives in January 2007. The agreement has been counter-signed by SOYO Group Inc.'s CEO on February 8 2007 and is now in effect.

The agreement is for a minimum period of 6.5 (six point five) years and calls for the payment of MINIMUM royalties by SOYO to Honeywell totaling $3,840,000

(Three Million, Eight Hundred and Forty Thousand Dollars U.S.). Sales levels in excess of minimum agreed targets will result in associated increases in the royalty payments due. Minimum royalty payments due under the agreement are $353,000 through December 31, 2007, and $469,000 through December 31, 2008. As of June 30, 2007, the Company has paid $184,000 to Honeywell as minimum royalty payments..

Through this agreement, SOYO is planning to develop and market consumer electronics products under the Honeywell brand. Over the life of the contract, SOYO has the right to create and bring to market LCD monitors and televisions, front and rear projectors, home audio and video DVD (receivers, AMPS, tuners, VHS recorders, DVD players and recorders, clock radio, bookshelf systems, speakers and audio intercom), portable audio/video DVD (boom boxes, portable CD/DVD players, MP3, MPEG, camcorders/ digital recorders) and accessories for TV monitors and audio visual products such as cables, surge protectors, Bluetooth, antennas, headphones (wireless and wired) remote controls, multimedia speakers, IPOD and PC accessories including portable hard drives and flash drives, wall mounts, set top boxes and PC embedded boxes. Since there are many market factors at play in the consumer electronics world, including consumer preferences, pricing and other market conditions, SOYO plans to spend the majority of its time and money on the most profitable products. There can be no assurance that SOYO will bring all of these products to market in a timely fashion, or at all.

The first six months of the contract were spent developing product specifications and marketing launch plans for the first products to be released. The Company plans a 2007 release of a 1.8 inch 100GB portable storage drive with data encryption. Additionally, there will be a 2007 release of a series of LCD monitors, beginning with a 22 inch wide model, and featuring height, swivel, tilt and 90 degree rotations, with a built in web cam. The Company is currently working on a larger screen television launch, which is currently projected for a 2008 release. Features of the larger screen TV are considered confidential, and will not be released to the public until the television is ready for launch.

Accounting Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates primarily relate to the realizable value of accounts receivable, vendor programs and inventories. Actual results could differ from those estimates.

Earnings Per Share - Statement of Financial Accounting Standards No. 128, "Earnings Per Share", requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income per share gives effect to all dilutive potential common shares outstanding during the period. Potentially dilutive securities consist of the outstanding shares of preferred stock and in the money stock options owned by employees.

As of June 30, 2007, potentially dilutive securities consisted of 3,246,517 shares of Class B Convertible Preferred Stock with a stated liquidation value of $1.00 per share that are convertible into common stock at fair market value, but not less than $0.25 per share. As of June 30, 2007, 5,902,758 shares of common stock were issuable upon conversion of the Class B Convertible Preferred Stock based on the $0.55 per share conversion price.

As of June 30, 2006, 9,377,938 shares of common stock were issuable upon conversion of the Class B Convertible Preferred Stock based on the $0.32 per share conversion price.

The Company applies the treasury stock method to each individual compensation grant. If a grant is out-of-the-money based on the stated exercise price, the effects of including any component of the assumed proceeds associated with that grant in the treasury stock method calculation would be antidilutive. A holder would not be expected to exercise out-of-the money awards. For the period ended June 30, 2007, out-of-the-money awards are not included in the computation of diluted EPS. Since the 2005 options granted are all out of the money, the only potentially dilutive securities are the 3,246,517 shares of Class B Convertible Preferred Stock, and the vested options granted in 2007. Based on the above, the filly diluted shares can be calculated as follows:

Shares outstanding at 6/30/2007	
Add: Conversion of Preferred Stock	49,039,156
	5,902,758
Add: Vested in the money options	1,600,000
Total fully diluted shares at 6/30/2007	56,541,914
	==========

Comprehensive Income (Loss) - The Company displays comprehensive income or loss, its components and accumulated balances in its consolidated financial statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive income (loss) during the six months ended June 30, 2007 and 2006.

Significant Risks and Uncertainties - The Company operates in a highly competitive industry subject to aggressive pricing practices, pressures on gross margins, frequent introductions of new products, rapid technological advances, continual improvement in product price/performance characteristics, and changing consumer demand.

As a result of the dynamic nature of the business, it is possible that the Company's estimates with respect to the realizability of inventories and accounts receivable may be materially different from actual amounts. These differences could result in higher than expected allowance for bad debts or inventory reserve costs, which could have a materially adverse effect on the Company's financial position and results of operations.

Stock-Based Compensation - Effective January 1, 2006, the Company has adopted Statement of Financial Accounting Standards No. 123 (R), "Share Based Payment" ("SFAS No. 123(R)"). Under SFAS 123(R), stock-based awards granted prior to January 1, 2006 will be charged to expense over the remaining portion of their vesting period. These awards will be charged to expense under the straight-line method using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. For stock-based awards granted on or after January 1, 2006, the Company determined stock-based compensation based on the fair value method specified in SFAS 123(R), and amortized stock-based compensation expense on the straight-line basis over the requisite service period.

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. For further information, refer to note 5, Stock Based Compensation.

Revenue Recognition

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

The Company recognizes product sales generally at the time the product is shipped, although under certain circumstances the Company recognizes product sales at the time the product reaches its destination. Concurrent with the recognition of revenue, the Company 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 when 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.

2. Short Term Loan

In October 2005, the Company borrowed $165,000 from an unrelated third party for working capital purposes. As of December 31, 2006, $65,000 of the loan had been repaid, and $100,000 was still outstanding. The balance was paid off during the first quarter of 2007.

3. Business Loan

During the first quarter of 2007, the Company began to use the $12 million asset based credit facility arranged with United Commercial Bank (see Form 8-K dated March 2, 2007). The agreement calls for UCB to provide funds for SOYO to purchase inventory in an amount determined by an evaluation of SOYO's current inventory and accounts receivable. According to the terms of the agreement, all accounts receivable sold to other factors were purchased by UCB.

In April 2007, by mutual agreement of the parties, the maximum loan balance was increased from $12 million to $14 million. All other terms of the agreement, including the interest rate, maturity date and method of evaluating the Company's inventory and receivables to determine eligible collateral were left unchanged. For reporting purposes, the loan has been segregated from other payables and reported as a separate line item. As of June 30, 2007, the amount SOYO owed to UCB was $13,595,447.

In June 2007, UCB offered to provide the Company with an alternative source of financing- Purchase Order financing. This line differed from all other forms of financing in that the bank was offering to advance funds against our customers specific purchase orders, provided the customer met the bank's stringent credit requirements. The end result is that the Company can use this credit line only by obtaining purchase orders from large customers before ordering the merchandise. The funds would then be advanced to the manufacturer after product was shipped, and once the product was delivered to the customer, and the status of the order was changed from a purchase order to a receivable, the loan would have to be paid back, or the balance transferred to the asset based credit line. The Company began buying merchandise under the Purchase Order financing line in June 2007. As of the June 30, 2007, the amount SOYO owed to UCB was $5,976,280.

4. Equity-Based Transactions

Effective December 30, 2003, SOYO Taiwan entered into an agreement with an unrelated third party to sell the $12,000,000 long-term payable due it by the Company. As part of the agreement, SOYO Taiwan required that the purchaser would

be limited to collecting a maximum of $1,630,000 of the $12,000,000 from the Company without the prior consent of SOYO Taiwan. In substance, SOYO Taiwan forgave debt in an amount equal to the difference between the $12,000,000 and the value of the preferred stock issued in settlement of this debt. This forgiveness of debt was treated as a capital transaction. Payment from the third party was received by SOYO Taiwan in February and March 2004. An agreement was reached during the three months ended March 31, 2004 whereby 2,500,000 shares of Class B preferred stock would be issued by the Company to the unrelated third party in exchange for the long-term payable.

The Class B preferred stock has a stated liquidation value of $1.00 per share and a 6% dividend, payable quarterly in arrears, in the form of cash, additional shares of preferred stock, or common stock, at the option of the Company. The Class B preferred stock has no voting rights. The shares of Class B preferred stock are convertible, in increments of 100,000 shares, into shares of common stock based on the $1.00 stated value, at any time through December 31, 2008, based on the fair market value of the common stock, subject, however, to a minimum conversion price of $0.25 per share. No more than 500,000 shares of Class B preferred stock may be converted into common stock in any one year. On December 31, 2008, any unconverted shares of Class B preferred stock automatically convert into shares of common stock based on the fair market value of the common stock, subject, however, to a minimum conversion price of $0.25 per share. Beginning one year after issuance, upon ten days written notice, the Company or its designee will have the right to repurchase for cash any portion or all of the outstanding shares of Class B preferred stock at 80% of the liquidation value ($0.80 per share). During such notice period, the holder of the preferred stock will have the continuing right to convert any such preferred shares pursuant to which written notice has been received into common stockwithout regard to the conversion limitation. The Class B preferred stock has unlimited piggy-back registration rights, and is non-transferable.

The Company recorded the issuance of the Class B preferred stock at its fair market value on March 31, 2004 of $1,304,000, which was determined by an independent investment banking firm. The $10,696,000 difference between the $12,000,000 long-term payable and the $1,304,000 fair market value of the Class B preferred stock was credited to additional paid-in capital. The difference between the fair market value and the liquidation value of the Class B preferred stock is being recognized as an additional dividend to the Class B preferred stockholder, and as a reduction to earnings available to common stockholders, and will be accreted from April 1, 2004 through December 31, 2008.

5. Stock-Based Compensation

On March 7, 2005, the Company registered its 2005 Stock Compensation Plan on Form S-8 with the Securities and Exchange Commission, registering on behalf of our employees, officers, directors and advisors up to 5,000,000 shares of our common stock purchasable by them pursuant to common stock options granted under our 2005 Stock Compensation Plan. The plan was approved by shareholder vote during a special meeting of shareholders on February 17, 2006. However, since Mr. Chok and Ms. Chu, husband and wife, are directors who own more than 50% of the Company, shareholder approval is essentially a formality, hence the grant date of the stock options is July 22, 2005.

On July 22, 2005, the Company issued 2,889,000 option grants to employees at a strike price of $0.75. One third of those options will vest and be available for

purchase on July 22, 2006, one third on July 22, 2007, and one third on July 22, 2008. The grants will expire if unused on July 22, 2010.

On February 2, 2007, the Company issued 4,805,000 option grants to employees at a strike price of $0.35. One third of those options were immediately vested and available for purchase on February 2, 2007, one third will vest on February 2, 2008, and one third on February 2, 2009. The grants will expire if unused on February 2, 2012.

As of June 30, 2007, 10 employees who had been granted stock options in 2005 had left the Company, and grants totaling 462,000 options were returned to the Company. One employee who was granted stock options in 2007 had left the Company as of the date of this report, and 10,000 options were returned to the Company.

For the six months ended June 2007 and 2006, the Company recorded $826,134 and $271,560, respectively, in compensation costs relating to stock options granted to employees. The amounts recorded represent equity-based compensation expense related to options that were issued in 2005 and 2007. The compensation costs are based on the fair value at the grant date.here was no such expense recorded during our fiscal year 2005.

The fair value of the options issued in July 2005 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate of 4.04 %, expected life of five (5) years and expected volatility 147%. The weighted average fair value of the options granted in July 2007 was approximately $1.3 million.

The fair value of the options issued in February 2007 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate of 4.820%, expected life of five (5) years and expected volatility 129%. The weighted average fair value of the options granted in February 2007 was approximately $1.4 million.

6. Income Taxes

Through 2006, the Company used net operating loss carryforwards to offset all income taxes payable. As of December 31, 2006, the Company had federal operating loss carryforwards of approximately $4,195,130 expiring in various years through 2024, which can be used to offset future taxable income, if any. As of December 31, 2006, there were no state operating loss carryforwards available to the Company.

As a result, the Company recognized income tax expense of $129,775 during the quarter, and $192,860 during the six month period ended June 30, 2007. Additionally, the Company recognized a gain related to deferred income tax assets of $439,802 during the quarter and $726,660 during the six month period ended June 30, 2007, resulting from timing differences between taxable income and US GAAP.

7. Significant Concentrations

a. Customers

The Company sells to both distributors and retailers. Revenues through such distribution channels are summarized as follows:

	Three Months Ended June 30,		Six Months Ended Ju	
	2007	2006	2007	2
Revenues:				
Distributors	$14,253,365	$9,273,290	$26,136,700	$16,8
Retailers	7,826,878	963,656	8,768,291	4,5
Others	2,122,152	550,569	3,988,514	9
Total	$24,202,395	$10,787,515	$38,893,505	$22,3

During the three months ended June 30, 2007 and 2006, the Company offered price protection to certain customers under specific programs aggregating $434,475and $25,078, respectively, which reduced net revenues and accounts receivable accordingly.

During the six months ended June 30, 2007 and 2006, the Company offered price protection to certain customers under specific programs aggregating $526,831 and $25,078, respectively, which reduced net revenues and accounts receivable accordingly.

During the three and six months ended June 30, 2007, the Company had no customer that accounted for more than 10% of net revenues.

b. Geographic Segments

Financial information by geographic segments is summarized as follows:

	Three Months Ended June 30,		Six Months Ended Jun	
	2007	2006	2007	20
Revenues:				
United States	$15,802,272	$ 8,019,132	$28,723,443	$17,3
Canada	3,750,830	790,316	3,715,965	1,5
Central and South America	4,635,606	1,975,627	5,199,902	3,3
Other	13,687	2,440	1,254,195	1

Total	$24,202,395	$10,787,515	$38,893,505	$22,3

c. Product lines

	Three Months Ended June 30, 2007	2006	Six Months Ended Jun 2007	
Revenues:				
Computer Products	$12,091,899	$ 496,166	$23,775,318	$ 7
Consumer Electronics	12,074,241	10,237,351	15,055,439	21,4
VoIP	17,773	53,998	44,266	1
Furniture	18,482	N/A	18,482	
Total	$24,202,395	$10,787,515	$38,893,505	$22,3

d. Suppliers

During 2006, 44% of the products distributed by the SOYO Group were supplied by a third party vendor.. SOYO Group, Inc. is currently establishing new partnerships with other OEM manufacturers in the North America and Asia Pacific Regions in order to provide innovative products for consumers.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, including statements that include the words "believes", "expects", "anticipates", or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the Company's expectations regarding its working capital requirements, financing requirements, business prospects, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed in or implied by the forward-looking statements contained herein.

Background and Overview:

Historically, the Company has sold computer components and peripherals to distributors and retailers primarily in North, Central and South America. The Company operated in one business segment. A substantial majority of the Company's products were purchased from SOYO Taiwan pursuant to an exclusive distribution agreement effective through December 31, 2005, and were sold under the "SOYO" brand.

Effective October 24, 2002, Vermont Witch Hazel Company, Inc., a Nevada corporation ("VWHC"), acquired SOYO, Inc., a Nevada corporation ("SOYO Nevada"), from SOYO Computer, Inc., a Taiwan corporation ("SOYO Taiwan), in exchange for the issuance of 1,000,000 shares of convertible preferred stock and 28,182,750 shares of common stock, and changed its name to SOYO Group, Inc. ("SOYO"). The 1,000,000 shares of preferred stock were issued to SOYO Taiwan and the 28,182,750 shares of common stock were issued to certain members of SOYO Nevada management. During October 2002, certain members of the management of SOYO Nevada also separately purchased 6,026,798 shares of the 11,817,250 shares of common stock of VWHC outstanding prior to VWHC's acquisition of SOYO Nevada, for $300,000 in personal funds. The 6,026,798 shares represented 51% of the outstanding shares of VWHC common stock. Accordingly, SOYO Taiwan and SOYO Nevada management currently own 34,209,548 shares of the Company's common stock outstanding.

Subsequent to this transaction, SOYO Taiwan maintained an equity interest in SOYO, continued to be the primary supplier of inventory to SOYO, and was a major creditor. In addition, there was no change in the management of SOYO and no new capital invested, and there was a continuing family relationship between certain members of the management of SOYO and SOYO Taiwan. As a result, for financial

reporting purposes, this transaction was accounted for as a recapitalization of SOYO Nevada, pursuant to which the accounting basis of SOYO Nevada continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of SOYO Nevada are now the historical financial statements of the Company.

Unless the context indicates otherwise, SOYO and its wholly-owned subsidiary, SOYO Nevada, are referred to herein as the "Company".

In 2004, the Company decided to make a significant change in the core offerings for sale. The emphasis switched from motherboards and hardware to peripherals, leading to a more diverse product offering. Also in 2004, the Company introduced its VoIP products. In 2005, SOYO Group, Inc. entered the LCD display market with the introduction of 17- and 19-inch LCD monitors, and 32 and 37 inch LCD televisions. Both products were introduced in the second quarter of 2005. Currently, the Company sells products under three different product lines: 1)Computer Components and Peripherals; 2) Consumer Electronics;; and 3) Communications Equipment and Services. The products are sold to distributors and retailers primarily in North, Central and South America.

Financial Outlook:

For the six months ended June 30, 2007, the Company earned $873,124, or $0.02 per share before dividends on preferred stock and $511.998 for the six months ended June 30, 2006 or $0.01 per share before dividends on preferred stock, The large increases in sales of LCD televisions and LCD monitors were primarily responsible for the large increase in net revenues.

As a general rule, the Company has been totally reliant upon the cash flows from its operations to fund future growth. In the last few years, the Company has begun and continues to implement the following steps to increase its financial position, liquidity, and long term financial health:

In 2005, The Company completed a small private placement, began factoring invoices to improve cash flows, and converted several million dollars of debt to equity, all of which improved the Company's financial condition.

In 2006, the Company changed factors to a more beneficial arrangement, and entered into a Trade Finance Flow facility with GE Capital to fund "Star" transactions. The agreement provided for GE Capital to guarantee payment, on the Company's behalf, for merchandise ordered from GE Capital approved manufacturers in Asia. GE Capital guarantees the payment subject to a purchase order from one of our customers. The Company accepts delivery of the goods in the US, and then has the option to either pay for the goods or sell the receivable (from the customer) to our factor, who pays GE Capital.

In March 2007, the Company announced that it had secured a $12 MM Asset Based Credit Facility from a California bank to provide funding for future growth.

There can be no assurances that these measures will result in an improvement in the Company's profitability or liquidity. To the extent that the Company's profitability and liquidity do not improve, the Company may be forced to reduce operations to a level consistent with its available working capital resources.

Critical Accounting Policies:

The Company prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The Company operates in a highly competitive industry subject to aggressive pricing practices, pressures on gross margins, frequent introductions of new products, rapid technological advances, continual improvement in product price/performance characteristics, and changing consumer demand.

As a result of the dynamic nature of the business, it is possible that the Company's estimates with respect to the realizability of inventories and accounts receivable may be materially different from actual amounts. These differences could result in higher than expected allowance for bad debts or inventory reserve costs, which could have a materially adverse effect on the Company's financial position and results of operations.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's condensed consolidated financial statements.

Vendor Programs:

Firm agreements with vendors for price protection, product rebates, marketing and training, product returns and promotion programs are generally recorded as adjustments to product costs, revenue or sales and marketing expenses according to the nature of the program. The Company records estimated reductions to revenues for incentive offerings and promotions. Depending on market conditions, the Company may implement actions to increase customer incentive offerings, which may result in an incremental reduction of revenue at the time the incentive is offered. The Company records the corresponding effect in cost or expense at the time it has a firm agreement with a vendor.

Accounts Receivable:

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

The Company records estimated reductions to revenue for incentive offerings and promotions. Depending on market conditions, the Company may implement actions to increase customer incentive offerings, which may result in an incremental reduction of revenue at the time the incentive is offered. The Company records the corresponding effect on receivable and revenue when the Company offers the incentive to customers. All accruals estimating sales incentives, warranties, rebates and returns are based on historical experience and the Company management's collective experience in anticipating customers actions. These amounts are reviewed and updated each month when financial statements are generated.

Complicating these estimates is the Company's different return policies. The Company does not accept returns from customers for refunds, but does repair merchandise as needed. The cost of the shipping and repairs may be borne by the customer or the Company, depending on the amount of time that has passed since the sale and the product warranty.

The Company has different return policies with different customers. While the Company does not participate in "guaranteed sales" programs, the Company has begun to sell products to several national retail chains. Some of these chains have standard contracts which require the Company to accept returns for credit within standard return periods, usually sixty days. While these return policies are more generous than the Company usually offers, management has made the decision to accept the policies and sell the products to these national chains for both the business volume and exposure such sales generate. These sales have been taking place since late 2005, and returns have consistently been below management's expectations. Therefore, no adjustments to the financial statements have been necessary.

Each month, management reviews the accounts receivable aging report and adjusts the allowance for bad debts based on that review. The adjustment is made based on historical experience and management's evaluation of the collectibility of outstanding accounts receivable over 90 days. At all times, the allowance for bad debts is large enough to cover all receivables that management is not certain it will collect, plus another one percent of the net accounts receivable.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined by using the average cost method. The Company maintains a perpetual inventory system which provides for continuous updating of average costs. The Company evaluates the market value of its inventory components on a regular basis and reduces the computed average cost if it exceeds the component's market value.

Income Taxes:

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its recorded amount, an adjustment to the deferred tax assets would be credited to operations in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made.

Results of Operations:

Three Months Ended June 30, 2007 and 2006:

Net Revenues. Net revenues increased by $13,414,880 or 124%, to $24,202,395 in the three months ended June 30, 2007, as compared to $10,787,515 in 2006. The increase in revenues can be attributed mainly to sales of LCD televisions in the United States, and LCD computer monitors in South America. Gross sales in South America more than doubled during the period from $2.0 million to $4.6 million. Our sales of LCD televisions grew exponentially from the period a year ago, helped by the sales of the Prive brand to Wal Mart Canada, and the opening of new retail and reseller accounts throughout the United States.

Gross Margin. Gross margin was $3,803,092 or 15.7% in 2007, as compared to $2,306,753 or 21.4% in 2006. As noted in the 10-Q report for the period ended June 30, 2006, the Company expects to maintain around a 16% gross margin based on the current product mix. The gross margin for the three months ended June 30, 2006 was abnormally high due to a few deals completed with high gross margins as new products were introduced. The gross margin was also negatively impacted by $434,475 of price protection granted to customers during the quarter.

Sales and Marketing Expenses. Selling and marketing expenses increased by $802,755 to $1,124,882 in 2007, as compared to $322,127 in 2006. The increase is due to higher commissions to outside sales representatives. The Company began using outside sales representatives to open new markets in 2006, and as the sales have grown, the commissions have grown. The Company believes this is a cost effective way to obtain shelf space at various retailers, so the outside commissions are likely to continue to grow larger. Additionally, the Company launched the Prive television line for Wal Mart Canada during the period, as well as the Levello furniture line. Prive products began shipping in April, and the Levello products in June. The start up costs of both lines are included in the sales and marketing expenses. Finally, a large component of the sales and marketing expenses is the initial cost of creating and launching the Honeywell consumer electronics products. As the Company begins to sell the Honeywell products in the third and fourth quarters, it expects to see a return on that investment.

General and Administrative Expenses. General and administrative expenses increased by $898,512 to $2,168,198 in 2007, as compared to $1,269,686 in 2006. The increase is due almost entirely to increased labor costs. As sales have almost tripled in the last two years, the Company has added staff in the sales, finance and operations areas. The staff has been needed to keep up with the increased business volume. Approximately $500,000 of the increase is due to the expense recognized for the employee stock option program. Those expenses are non cash expenses, which do not effect the Company's ability to grow top line sales and profits.

Bad debts. The Company recorded a provision for doubtful accounts of $125,063 in the three months ended June 30, 2007. The Company recorded a provision for doubtful accounts of $53,184 for the three months ended June 30, 2006. Increase of $71,879 is due to increase in receivable balance. As of June 30, 2007, the Company believes its provision for doubtful accounts is adequate.

Depreciation and Amortization. Depreciation and amortization of property and equipment was $22,409 for the three months ended June 30, 2007, as compared to $26,574 in 2006. Depreciation expense is lower than a year ago since the Company is no longer depreciating certain assets in China that are part of the VoIP business. The assets were written down to fair value in 2006 and are no longer being depreciated.

Income from Operations. The income from operations was $362,540 for the three months ended June 30, 2007, as compared to $635,182 for the three months ended June 30, 2006. This is a result of the increased expenses described above offsetting the higher gross margin, and the cost of the employee stock options being absorbed into the calculation.

Miscellaneous Income. Miscellaneous income was a loss of $16,876 for the three months ended June 30, 2007. Miscellaneous income was $754 in the three months ended June 30, 2006. The loss was mainly due to expenses related to setting up our Canadian business for the Prive sales that began during the quarter. We do not expect the expenses to be recurring.

Interest Income. Interest income was $17,409 for the three months ended June 30, 2007, as compared to $3,360 for the three months ended June 30, 2006.

Interest Expense. Interest expense was $322,166 for the three months ended June 30, 2007. Interest expense was $78,082 for the three months ended June 30, 2006. The increase was due to a single factor. The Company now has access to a large asset based credit line to finance inventory purchases and future growth. The large sales increases, market penetration, and improved performance would not have happened without the asset based line and subsequent interest expense.

Provision for Income Taxes. The Company recognized a provision for income taxes of $129,775 for the three months ended June 30, 2007. There was no provision in 2006. The provision is now necessary as net operating loss carry forwards will no longer offset all of the Company's tax liabilities.

Deferred Income Tax Gain (Expense): The deferred income tax gain (expense) was a gain of $439,802 for the three months ended June 30, 2007. This is a result of timing differences between GAAP income and taxable income, and is mainly attributable to the required accounting treatment of the stock options granted to employees. There was no deferred income tax gain or loss in the three months ended June 30, 2006.

Net Income. Net income was $350,934 for the three months ended June 30, 2007, as compared to $561,214 for the three months ended June 30, 2006. Increases in sales and marketing expenses, as well as increased labor costs offset the higher gross margin earned in the period.

Six Months ended June 30, 2007 and 2006:

Net Revenues. Net revenues increased by $16,557,803 or 74%, to $38,893,505 in the six months ended June 30, 2007, as compared to $22,335,702 in 2006. The increase in revenues was mainly due to new markets being opened by the sales department for LCD television sales, as well as increased sales in Latin America. New customers during the period included American TV (15 stores in the Midwest U.S.), 6th Avenue Electronics, featured spots during the period on ShopNBC, as well as sales of the Prive line to Wal Mart Canada, and the initial shipment of LCD computer monitors to OfficeMax.

Gross Margin. Gross margin was $6,411,288 or 16.5% in 2007, as compared to $3,957,841 or 17.7% in 2006. Gross margins increased both on a numerical and a percentage basis as the Company increased sales in higher margin areas such as South America and of higher margin products such as LCD monitors and wireless Bluetooth devices. Gross margins were negatively impacted by $526,831 of price protection granted to customers during the period.

Sales and Marketing Expenses. Selling and marketing expenses increased by $1,318,725 to $1,715,738 in 2007, as compared to $397,013 in 2006. The increase is due to a number of factors. The first component is higher commissions to outside sales representatives. The Company began using outside sales representatives to open new markets in 2006, and as the sales have grown, the commissions have grown. The Company believes this is a cost effective way to obtain shelf space at various retailers, so the outside commissions are likely to continue to grow larger as sales continue to grow. Additionally, the Company launched the Prive television line for Wal Mart Canada during the period, as well as the Levello furniture line. The start up costs of both lines are included in the sales and marketing expenses. Finally, a large component of the sales and marketing expenses is the initial cost of creating and launching the Honeywell consumer electronics products. As the Company begins to sell the Honeywell products in the third and fourth quarters, it expects to see a return on that investment.

General and Administrative Expenses. General and administrative expenses increased by $991,693 to $3,746,372 in 2007, as compared to $2,754,679 in 2006. The increase is due almost entirely to increased labor costs. As sales have almost tripled in the last two years, the Company has added staff in the sales, finance and operations areas. The staff has been needed to keep up with the increased business volume. Approximately $500,000 of the increase can be traced directly to the stock options issued to employees.

Bad debts. The Company recorded a provision for doubtful accounts of $126,501 in the six months ended June 30, 2007. The Company recorded a provision for doubtful accounts of $103,184 for the six months ended June 30, 2006. As of June 30, 2007, the Company believes its provision for doubtful accounts is adequate.

Depreciation and Amortization. Depreciation and amortization of property and equipment was $45,700 for the six months ended June 30, 2007, as compared to $52,390 in 2006. Depreciation expense is lower than a year ago since the Company is no longer depreciating certain assets in China that are part of the VoIP business. The assets were written down to fair value in 2006 and are no longer being depreciated.

Income from Operations. The income from operations was $776,977 for the six months ended June 30, 2007, as compared to $650,575 for the six months ended June 30, 2006. This is a result of the increased sales and gross margins being offset by the higher sales and marketing expenses described above, as well as increased labor costs including an approximately $500,000 charge for issuing employee stock options.

Miscellaneous Income. Miscellaneous income was a loss of $104,566 for the six months ended June 30, 2007. Miscellaneous income was $4,531 in the three months ended June 30, 2006. The majority of the loss was due to a large order of LCD televisions that was processed incorrectly by the factory. The TV's did not contain the proper tuners, and as such, could not be sold through the traditional retail channel. The products were sold at a substantial loss, most of which was absorbed by the factory. Since the Company was partly at fault, the Company took a percentage of the loss (approximately $80,000) and segregated that loss for financial reporting purposes. The Company then implemented an entirely new sign off procedure for such transactions to make sure that a similar error could not be repeated.

Interest Income. Interest income was $48,794 for the six months ended June 30, 2007, as compared to $6,607 for the six months ended June 30, 2006. The increase is due to the Company having more cash on hand due to improved financial performance over the last year.

Interest Expense. Interest expense was $381,881 for the six months ended June 30, 2007. Interest expense was $150,469 for the six months ended June 30, 2006. The increase was due to a single factor. The Company was operating under a factoring agreement in 2006, but has since obtained an asset based credit line. Borrowings are way up, which has led to increased inventory turnover, sales and receivables. The 74% increase in net revenues would not have been possible without the credit line, and therefore the interest expense.

Provision for Income Taxes. The Company recognized a provision for income taxes of $192,860 in 2007. There was no provision in 2006. The provision is now necessary as net operating loss carry forwards will no longer offset all of the Company's tax liabilities.

Deferred Income Tax Gain (Expense): The deferred income tax gain (expense) was a gain of $726,660 for the six months ended June 30, 2007. This is a result of timing differences between GAAP income and taxable income. There was no deferred income tax gain or loss in the three months ended June 30, 2006.

Net Income. Net income was $873,124 for the six months ended June 30, 2007, as compared to $511,998 for the three months ended June 30, 2006.

Financial Condition - June 30, 2007:

Liquidity and Capital Resources:

As a general rule, the Company has been totally reliant upon the cash flows from its operations to fund future growth. In the last few years, the Company has begun and continues to implement the following steps to increase its financial position, liquidity, and long term financial health:

In 2005, The Company completed a small private placement, began factoring invoices to improve cash flows, and converted several million dollars of debt to equity, all of which improved the Company's financial condition.

In 2006, the Company changed factors to a more beneficial arrangement, and entered into a Trade Finance Flow facility with GE Capital to fund "Star" transactions. The agreement provided for GE Capital to guarantee payment, on the Company's behalf, for merchandise ordered from GE Capital approved manufacturers in Asia. GE Capital guarantees the payment subject to a purchase order from one of our customers. The Company accepts delivery of the goods in the US, and then has the option to either pay for the goods or sell the receivable (from the customer) to our factor, who pays GE Capital.

In March 2007, the Company announced that it had secured a $12 MM Asset Based Credit Facility from a California bank to provide funding for future growth.

In April 2007, by mutual agreement of the parties, the maximum loan balance was increased from $12 million to $14 million.

In June 2007, UCB offered to provide the Company with an alternative source of financing- Purchase Order financing. This line differed from all other forms of financing in that the bank was offering to advance funds against our customers specific purchase orders, provided the customer met the bank's stringent credit requirements. The end result is that the Company can use this credit line only by obtaining purchase orders from large customers before ordering the merchandise. The funds would then be advanced to the manufacturer after product was shipped, and once the product was delivered to the customer, and the status of the order was changed from a purchase order to a receivable, the loan would have to be paid back, or the balance transferred to the asset based credit line. The Company began buying merchandise under the Purchase Order financing line in June 2007.

On December 27, 2006, the Company filed Form 8-K detailing SOYO's agreements with vendors Eastech and Corion regarding SOYO's payment of trade debts. The Company had several issues with the quality of the merchandise received from both vendors, and refused to pay for the merchandise without concessions in regard to price, RMA, and other factors. Ultimately, the Company was able to come to mutually agreeable terms with both vendors. The end result is that the Company will pay both vendors over time, which results in a portion of each debt being reclassified to long term debt, and helps the Company's liquidity. The Company does not expect that any other trade receivables or payables will be settled in such a manner.

Operating Activities. The Company utilized cash of $16,242,562 from operating activities during the six months ended June 30, 2007, as compared to generating cash of $130,437 from operating activities during the six months ended June 30, 2006. The Company's need for cash continues to grow as revenues grow. The Company's total assets have grown from under $27,000,000 to over $40,000,000 in the last six months. That is all due to increased sales, leading to higher receivables and the need for higher inventory levels. Refundable deposits have also grown to over $5 million as of June 30, 2007.

At June 30, 2007, the Company had cash and cash equivalents of $1,084,886 as compared to $1,501,040 at December 31, 2006.

The Company had working capital of $4,008,680 at June 30, 2007, as compared to working capital of $5,915,914 at December 31, 2006, resulting in current ratios of 1.11:1 and 1.30:1 at June 30, 2007 and December 31, 2006, respectively. At year end, the Company had classified almost $4 million of debt as long term debt. That debt has now been reclassified as current debt, and is now part of the calculation of working capital.

Accounts receivable increased to $21,927,668 at June 30, 2007, as compared to $16,467,135 at December 31, 2006, an increase of $5,460,533. The Company's allowance for doubtful accounts stood at $513,996 as of June 30, 2007 and $388,958 at December 31, 2006.

Inventories increased to $11,061,681 at June 30, 2007, as compared to $7,792,621 at December 31, 2006, an increase of $3,269,060. Inventory in transit was $3,958,385 at June 30, 2007, down slightly from $4,005,265 at December 31, 2006.

Accounts payable decreased to $15,832,366 at June 30, 2007, as compared to $16,073,617 at December 31, 2006. The decrease is meaningless, as we have reclassified liabilities on the balance sheet. When taken with other current liabilities, current liabilities have increased from $16,713,384 to $36,036,442, which offsets the large increase to receivables, inventories and deposits.

Accrued liabilities increased to $632,349 at June 30, 2007, as compared to $539,767 at December 31, 2006, an increase of $92,582.

Principal Commitments:

A summary of the Company's contractual cash obligations as of June 30, 2007, is as follows:

	Less than 1 year	1-3 years	4-5 years	O
Contractual Cash Obligations				
Operating Leases	$212,692	$ 88,622	$ -	
Royalties Payable	424,000	1,178,000	1,606,000	
Purchase Commitments	3,958,385			
Total	$4,595,077	$1,266,622	$1,606,000	

At June 30, 2007, the Company did not have any long term purchase commitment contracts to honor. The only purchase commitments were for inventory already purchased and in transit of $3,958,385.

At June 30, 2007 the Company did not have any material commitments for capital expenditures or have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

On February 8, 2007, SOYO Group announced that the Company had entered into a licensing agreement with Honeywell Intellectual Properties Inc. and Honeywell International Inc., ffective January 1, 2007, under which SOYO will supply and market certain consumer electronics products under the Honeywell Brand.

The agreement is for a minimum period of 6.5 (six point five) years and calls for the payment of MINIMUM royalties by SOYO to Honeywell totaling $3,840,000 (Three Million, Eight Hundred and Forty Thousand Dollars U.S.). Sales levels in excess of minimum agreed targets will result in associated increases in the royalty payments due. Minimum royalty payments due under the agreement are $353,000 through December 31, 2007, and $469,000 in 2008.

Off-Balance Sheet Arrangements:

At June 30, 2007, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Commitments and Contingencies:

At June 30, 2007, the Company did not have any material commitments for capital expenditures.

Recent Accounting Pronouncements:

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact SFAS 159 may have on its financial condition or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Issues No. 157, "Fair Value Measurements" ("SFAS 157"), which defines the fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is encouraged, provided that the Company has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact SFAS 157 may have on its financial condition or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have any market risk with respect to such factors as commodity prices, equity prices, and other market changes that affect market risk sensitive investments.

As the Company's debt obligations at June 30, 2007 are primarily short-term in nature and non-interest bearing, the Company does not have any risk from an increase in interest rates. However, to the extent that the Company arranges new interest-bearing borrowings in the future, an increase in current interest rates would cause a commensurate increase in the interest expense related to such borrowings.

The Company does not have any foreign currency risk, as its revenues and expenses, as well as its debt obligations, are denominated and settled in United States dollars.

4. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Control Procedures

Based on a current evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) were not effective as of June 30, 2007 and did not ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, that as of such date, the Company's disclosure controls and procedures were not effective. In addition, the Company's automated financial reporting systems are overly complex, poorly integrated and inconsistently implemented.

The Company's Chief Executive Officer and Chief Financial Officer arrived at this conclusion based on a number of factors, including the fact that the Company's system of internal control requires considerable manual intervention to do the following: (1) to properly record accounts payable to vendors for purchases of inventory, (2) to properly record adjustments to inventory per the general ledger to physical inventory balances, (3) to properly record inventory adjustments to the lower of cost or market using the average inventory method, (4)to have effective controls over interim physical inventory procedures, and 5) to generate timely and accurate financial information to allow for the preparation of timely and complete financial statements. The Company did not have an effective financial reporting process because of the aforementioned material weaknesses. Accordingly, the Company's Chief Executive Officer and Chief Financial Officer concluded that there were significant deficiencies, including material weaknesses, in the Company's internal controls over its financial reporting at the end of the period ended June 30, 2007.

To address these significant deficiencies and material weaknesses, the Company Has taken the following corrective actions:

The Company is operating without a permanent Accounting Manager or Controller.

While the Company does not have a permanent Accounting Manager or Controller, the Company believes it has enough staff working in the accounting department to complete all work required on a timely basis. The Company has retained a financial consultant and former CPA to oversee the day to day management of the accounting department. The Company has recently added additional personnel to complete the day to day accounting tasks. The Company promoted a bookkeeper to Acting Accounting Manager.

Management hired experts to assist in the evaluation and implementation of new accounting software. The evaluation was completed, and the software has been paid for. The Company has been testing and customizing the software for the last few months, and expects that the software will be installed and operational during the third quarter of 2007.

In conjunction with the Company's financial statements for the quarter ended March 31, 2007, the Company's Chief Executive Officer and its Chief Financial Officer reviewed and evaluated the corrective actions listed above. The officers believed that such corrective actions minimize the risk of material misstatement, but the corrective actions continued to have significant deficiencies.

As of June 30, 2007, the Chief Executive Officer and the Chief Financial Officer are satisfied that with the personnel in place, and with the additional efforts of the Financial Consultant/ CPA, that the books and records portray a completely accurate picture of the Company's financial position and that all transactions are being captured and reported as required. The Company believes that once the new software is installed and operational, all significant deficiencies will have been addressed and corrected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Soyo Inc. v. XtraPlus, etc, et al.: On or about September 27, 2004, Soyo, Inc. ("Soyo") sold computer components to XtraPlus Corporation, dba ZipZoomFly.com ("XtraPlus"), a computer retailer. Soyo invoiced XtraPlus for $183,600, but XtraPlus failed to pay the invoice and, on March 4, 2005, Soyo filed a civil complaint against XtraPlus in the Superior Court of the State of

California for the County of San Bernardino ("Court"). XtraPlus thereafter filed a Cross-Complaint against Soyo on May 11, 2005 in which it alleged claims for: (1) Breach of Contract; (2) Breach of Warranty; (3) Breach of the Implied Covenant of Good Faith and Fair Dealing; and (4) Violation of Business & Professions Code ss. 17200. In its prayer in the Cross-Complaint, XtraPlus sought special and general damages in excess of $100,000, attorneys' fees and costs, and such other relief as the Court might determine to be just and proper. After it filed its Complaint, Soyo also sought an attachment of $183,600, plus interest and costs, and ultimately, XtraPlus paid Soyo $40,000 of the amount sought, and deposited into the registry of the Court the sum of $140,000.

On January 12, 2007, the Court ordered that summary adjudication be granted in favor of Soyo on two of the four claims in Soyo's Complaint against XtraPlus (Soyo voluntarily dismissed the other two claims), and that Soyo recover the remaining balance due on its claim. The Court also ordered that summary judgment be granted in favor of Soyo and against XtraPlus on all of the claims against Soyo that were contained in the XtraPlus Cross-Complaint. The formal judgment has been entered and satisfied, and the period for an appeal has expired. Hence, this action has been formally concluded.

Normandin v. Soyo Group, Inc. et al.: On August 2, 2004, Gerry Normandin, individually and on behalf of a proposed nationwide class of consumers, filed a Complaint in the Superior Court of the State of California for the County of San Bernardino against the Company and DOES 1 through 100. Normandin has asserted three causes of action in his Complaint: (1) Violation of the Consumer Legal Remedies Act, Civil Code Section 1750 et seq.; (2) Violation of Business and Professions Code Section 17200 et seq.; and (3) Violation of Business and Professions Code Section 17500 et seq. Normandin prays for an order certifying the case as a class action, an award of actual damages suffered by plaintiff and the class in an amount not less than $1,000 per person, an order for restitution and disgorgement of monies wrongfully acquired by defendants through the sales of motherboards having defective capacitors, an order enjoining the Company from further sales of motherboards with defective capacitors, an award of punitive damages, attorneys' fees and costs, pre-judgment interest and such other relief as the Court may deem just and proper.

The parties have reached a settlement of the action and a formal settlement agreement has been executed which, among other things, requires a payment by Soyo of $175,000. The Court in which the action is pending has given its preliminary approval to the settlement, and Soyo is required to give notice to the class of the proposed settlement. After notice has been given and the period within which class members have to object to the settlement expires, there will be a Final Hearing where the Court will be asked to give Final Approval to the Settlement.

Soyo v. Hartford: Soyo tendered a claim to Hartford Insurance Company of the Midwest ("Hartford") under which it sought a defense and indemnity for the claims asserted in the Normandin action. Hartford rejected that claim, and on May 1, 2006, Soyo Group Inc. filed an action for: (1) Declaratory Relief; (2) Breach of Contract; and (3) Bad Faith against Hartford. Soyo, Inc. was subsequently added as a Plaintiff in a First Amended Complaint ("FAC") that was filed in the action. In the Prayer in the FAC, Soyo sought general, special and punitive damages in amounts that were unspecified, as well as interest costs and attorneys fees.

The dispute was mediated, and an agreement in principle to resolve it was reached on December 21, 2006. The formal settlement agreement is being prepared and has not yet been executed by any of the parties. We cannot predict whether a formal agreement will be executed, or the outcome of this action if it is not.

On June 30, 2006, a lawsuit was filed in the United States District Court, Central District of California, Eastern Division, entitled Robert Lewis, Jr. v. Soyo Group, Inc., et al., Case No. EDCV 06-699 VAP (JWJx). The case seeks class action status and alleges failures to timely pay rebates to purchasers of Soyo products allegedly in violation of unfair competition laws, the California Consumer Legal Remedies Act and contracts with purchasers. The plaintiff seeks disgorgement of all amounts obtained by the Company as a result of the alleged misconduct, plus actual damages, punitive damages and attorneys' fees and costs. The Company has agreed to settle the matter, the court has given preliminary approval of the parties' settlement, and the terms of the settlement are being carried out.

On May 22, 2005, the Company received notice of an investigation by the Attorney General of the State of California (the "AG") regarding the Company's alleged failures to timely pay rebates to purchasers of Soyo products. The Company cooperated with the investigation and agreed to the terms of a stipulation for entry of final judgment and permanent injunction (the "Injunction") relating to the Company's administration of rebate claims. On March 7, 2007, the Injunction was filed by the AG and entered by the Superior Court of California, County of San Diego in the action entitled People of the State of California v. Soyo Group, Inc., et al., Case No. GIC 8813770. The Company believes that compliance with the terms of the Injunction will have no material adverse effect on the Company.

On February 15, 2006, the Company received notice of an investigation by counsel for the Federal Trade Commission (the "FTC") regarding the Company's alleged failures to timely pay rebates to purchasers of Soyo products. The Company cooperated with the investigation and agreed to the terms of an agreement containing a consent order (the "Consent Order") to be filed by the FTC relating to the Company's administration of rebate claims. The FTC approved the Consent Order and served it on the Company on June 18, 2007.

On January 26, 2007, the Company filed a lawsuit against Astar Electronics USA, Inc., KXD Technology, Inc. and Does 1 - 25 in the Superior Court of California for the County of Los Angeles, Central District (Case No. BC365349). The Company alleges claims for breach of contract, fraud, and tortious interference with economic relations and seeks compensatory and punitive damages. Both named defendants were served on January 26, 2007. On May 17, 2007, the Company filed a First Amended Complaint against Defendants alleging additional claims for trademark infringement, trademark dilution, unfair competition and false advertising. On or about June 22, 2007, KXD Technology, Inc. filed a cross-complaint against the Company and two of its officers, Nancy Chu and Ming Chok alleging claims for breach of contract, fraud, tortious interference with economic relations and common counts. The Company is vigorously prosecuting its claims against defendants and defending itself in the action. Discovery has commenced, but no trial date has been set.

On March 22, 2007, Semiconductor Energy Laboratory Co., Ltd. instituted an action against several defendants, including the Company, in the United States District Court for the Northern District of California (Case No. C071667 MHP) alleging patent infringement with respect to certain products the Company is alleged to have imported and sold in the United States. No trial date has been set. Pursuant to order of the Court, the Company's deadline to respond to the

Complaint is currently on July 12, 2007. On July 5, 2007, Plaintiff filed a dismissal without prejudice as to the Company.

There are no other legal proceedings that have been filed against the Company.

None of the Company's directors, officers or affiliates, or owner of record of more than five percent (5%) of its securities, or any associate of any such director, officer or security holder, is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

ITEM 1A: RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits
A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

(b) Reports on Form 8-K

None

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, thereunto duly authorized.

SOYO GROUP, INC.

(Registrant)

DATE: August 13, 2007 By: /s/ Ming Tung Chok

Ming Tung Chok
President and Chief
Executive Officer

DATE: August 13, 2007 By: /s/ Nancy Chu

Nancy Chu
Chief Financial Officer

DATE: August 13, 2007 By /s/ Paul F. Risberg

Name: Paul F. Risberg
Title: Director

DATE: August 13, 2007 By /s/ Chung Chin Keung

Name: Chung Chin Keung
Title: Director

DATE: August 13, 2007 By /s/ Zhi Yang Wu

Name: Zhi Yang Wu
Title: Director

INDEX TO EXHIBITS

Exhibit Number	Description of Document
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Ming Tung Chok
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Nancy Chu
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Ming Tung Chok
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Nancy Chu