CATHAYONE INC
Form 10QSB
May 21, 2001

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2001

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ________ to ________

COMMISSION FILE NUMBER 000-29865

CATHAYONE, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	13-4140336
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)

2100 Pinto Lane, Las Vegas, Nevada 89106
(Address of principal executive offices)

(702) 378-6864
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section13 or 15(d) of the Exchange Act during the past 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 [ ]

Number of shares of common stock outstanding as of
May 18, 2001: 29,689,158

CATHAYONE, INC. AND SUBSIDIARIES
(A Development Stage Company)

PART I - FINANCIAL INFORMATION (Post Re-Capitalization - See Notes)

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PART II - OTHER INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
AT MARCH 31, 2001 (UNAUDITED) AND DECEMBER 31, 2000

ASSETS

CURRENT ASSETS	(Unaudited) March 31, 2001	Dec 31, 2000
Cash and Cash Equivalents	$ 573	$ 37,18
Loan Receivable, net	7,500	-0
Prepaid Expenses	500	50
TOTAL CURRENT ASSETS	8,573	37,68
FIXED ASSETS		
Furniture and Office Equipment	5,946	5,94
Accumulated Depreciation	(950)	(85
Net Fixed Assets	4,996	5,09
TOTAL ASSETS	$ 13,569	$ 42,78
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	1,166,767	1,044,70
Due to Related Parties	822,377	776,17
TOTAL CURRENT LIABILITIES	1,989,144	1,820,87
COMMITMENTS AND CONTINGENCIES - NOTE 4		
STOCKHOLDERS' DEFICIT		
Common Stock ($.001 par value, 100,000,000 shares authorized: 29,689,158 issued and outstanding)	29,689	29,48
Preferred Stock ($.001 par value, 5,000,000 shares authorized: none issued and outstanding)	-0-	-0
Additional Paid-in-Capital	3,129,149	2,667,34
Deficit Accumulated During Development Stage	(5,134,413)	(4,474,93
TOTAL STOCKHOLDERS' DEFICIT	(1,975,575)	(1,778,09
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 13,569	$ 42,78

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND FOR THE PERIOD OF
MARCH 1, 2000 (DATE OF REORGANIZATION) TO MARCH 31, 2000

	March 31, 2001	March 31, 2000

OPERATING EXPENSES:		
Advertising.	$ 38,050	$ -0-
Consulting	120,000	-0-
Depreciation	100	-0-
Insurance.	4,576	-0-
Office Expenses.	5,027	-0-
Payroll and Related Taxes.	8,116	-0-
Professional Fees.	2,596	1300
Public Trading	1,121	-0-
Rent	16,200	-0-
Travel	1,590	-0-
TOTAL EXPENSES	197,376	1,300
OPERATING LOSS	(197,376)	(1,300)
OTHER EXPENSE:		
Other Expense - Note 3	(462,104)	-0-
TOTAL OTHER EXPENSE.	(462,104)	-0-
LOSS BEFORE TAXES.	(659,480)	(1,300)
INCOME TAX (PROVISION) BENEFIT	-0-	-0-
NET LOSS	$ (659,480)	$ (1,300)
Net Loss Per Common Share Basic & Fully Diluted.	$ (0.02)	N/A
Weighted Average Common Shares Outstanding	29,622,491	N/A

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND FOR THE PERIOD OF
MARCH 1, 2000 (DATE OF REORGANIZATION) TO MARCH 31, 2000

	March 31, 2001	March 31,
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (659,480)	$ (1
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	100	
Common stock issued in connection with legal services - Note 3	462,000	
Increase in operating liabilities:		

Amounts due related party for services rendered.	46,200	
Accounts payable and accrued expenses.	122,066	1
NET CASH USED IN OPERATING ACTIVITIES	(29,114)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of note receivable.	(7,500)	
NET CASH USED IN FINANCING ACTIVITIES.	(7,500)	
NET INCREASE IN CASH AND CASH EQUIVALENTS.	(36,614)	
CASH AND CASH EQUIVALENTS:		
Beginning of period.	37,187	
End of period.	$ 573	$

CATHAYONE, INC. & SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) CONT'
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND FOR THE PERIOD OF
MARCH 1, 2000 (DATE OF REORGANIZATION) TO MARCH 31, 2000

	March 31, 2001	March 31, 2000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 104	$ -0-
NON-CASH FINANCING ACTIVITIES:		
Common stock issued in connection with legal services - Note 3.	$ 462,000	$ -0-

CATHAYONE, INC. & SUBSIDIARIES

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001 (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at March 31, 2001, the results of operations for the three month period ended March 31, 2001 and 2000, and cash flows for the three months ended March 31, 2001 and 2000. The results for the period ended March 31, 2001, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2001.

NOTE 2 - EARNINGS (LOSS) PER SHARE

The following represents the calculation of earnings per share:

BASIC & DILUTED*	For the three months ended March 31, 2001	2000
Net income (loss)	$ (659,480)	$ (1,300)
Less- preferred stock dividends	--	--
Net income (loss)	$ (659,480)	$ (1,300)
Weighted average number of common shares	29,622,491	N/A
Basic & diluted earnings per share	$ (.02)	N/A

*There were no common stock equivalents for either period presented.
** Less than $.01

NOTE 3 - OTHER EXPENSE

During the quarter ended March 31, 2001, the Company issued 200,000 shares of its common stock in connection with legal services performed rendered on behalf of the Company. The Company is disputing a significant portion of the approximately $528,000 in accumulated invoices claimed by the law firm. The Company has accrued these invoices in its financial statements pending a settlement with the law firm. The shares were issued pursuant to an agreement whereby the law firm will provide the Company until April 30, 2001 to pay the outstanding invoices. The value of the shares was determined using the fair market on the date of issuance, or $2.31 per share, yielding an aggregate value of $462,000.

NOTE 4 - COMMITMENTS

The Company has committed to provide funding of $5,000,000 within the next year towards the development of e-commerce entertainment projects. The Company has not made payments towards this commitment as of the date of this report.

The Company has committed to provide funding of $10,000,000 within the next year towards the development of a joint venture. During the period ended December 31, 2000, the Company contributed approximately $911,970 towards this commitment. The Company has not made payments towards this commitment during 2001. The Company is currently in default of the remaining payments, however, it intends to remedy the situation during the remainder of 2001.

The Company has committed to paying $700,000 and issuing 250,000 shares to a related third party, contingent upon the third party's completion of certain entertainment projects. The Company does not deem these amounts payable as of March 31, 2000 and the Company is uncertain when such amount would be payable, if ever.

The Company has entered into employment agreements with three officers of the Company. Pursuant to the agreements, which were consummated between June and August of 2000, the Company will pay $120,000 per year, or an aggregate annual total amount of $360,000, for three years. The officers will also be entitled to annual compensation increases of 10% and each officer can purchase up to 675,000 shares of the Company's common stock at $.001 per share. None of the common stock options have been exercised as of the date of this report.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Readers of this report are cautioned not to put undue reliance on "forward looking" statements that are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

DESCRIPTION OF BUSINESS

Business Development History

CathayOne, Inc. (the "Company") is a publicly traded Delaware corporation that was originally incorporated in the State of Utah on August 6, 1984, under the name North American Clothing Company, Inc.

As of June 30, 2000, a majority of the shareholders of the Company authorized a change in the Company's state of incorporation from Utah to Delaware, and the merger of the Company into its wholly owned subsidiary, Cathay Bancorp Inc., CathayOne Inc. being the surviving company. The re-domiciling of the Company to the State of Delaware and the concurrent change of the Company's name to CathayOne Inc. occurred on August 9, 2000.

The Company's principal executive office is located at 2100 Pinto Lane, Las Vegas, Nevada 89106 and its telephone number is (702) 378-6864.

Business of the Issuer.

Principal Products and Services

The Company's stated business purpose is to manage, take a majority position in, and/or make strategic investments in technological and service companies in the entertainment industry. While located in the United States, the Company has positioned itself to take advantage of the appetite for foreign content entertainment as well as foreign entertainment in China, the fast-growing broadband multimedia information dissemination opportunities, and Internet content services market in China. Management believes that the best returns for investments in the next decade will be in the People's Republic of China, Hong Kong, Macao and Taiwan (collectively, "Greater China").

The Greater China market is increasingly looking outward in its appetite for foreign content entertainment. The Company believes it can capitalize on the growth in information technology, and will initially focus on developing companies in the entertainment markets, including: music, theater and sporting events.

The Company will provide its North American expertise in management, new technologies, and financial acumen to companies in China. As the companies mature, the Company will seek to enhance value and liquidity for its shareholders by bringing these companies to the public market, arranging merger and acquisition opportunities, or negotiating private transactions for them. In the alternative, the Company may take an equity position or enter into joint ventures with such companies.

Distribution

The Company is still in the developmental phase and has not, to this date, embarked on any consistent attempts to market or distribute its products in the Greater China region or elsewhere. The Company has performed no formal market studies related to its proposed products and services in the Greater China region. However, the Company has been involved in limited in house research to determine the types of music and entertainment that might be marketed successfully in the Greater China region.

Competition

The Company will be involved in intense competition with other business entities, many of which will have a competitive edge over the Company by virtue of their stronger financial resources and prior experience in business. There is no assurance that the Company will be successful in obtaining additional suitable business opportunities, or that it will be able to successfully operate its current proposed businesses.

The market for the provision of entertainment products and/or services to individuals and businesses is extremely competitive and highly fragmented. There may be substantial barriers to entry in Mainland China and other foreign countries where the Company seeks to operate, and the Company expects that competition will intensify. The Company believes that the primary competitive factors determining success in this market are a reputation for reliability and service, effective customer support, pricing, creative marketing, and geographic coverage. Other important factors include the timing of introductions of new products and services and industry and general economic trends. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, financial condition and results of operations.

In order to respond to expected changes in the competitive environment, the Company may, from time to time, make price, service or marketing decisions or make acquisitions that could possibly harm its business. Developing new technologies may also increase competitive pressures on the Company by enabling its competitors to offer a lower cost service.

Dependence on Major Customers

The Company's business plan does not envision dependence on one or a few major customers

Governmental Regulation

The Company is subject to the same federal, state and local laws as other companies providing entertainment and Internet products and services. Today, there are relatively few laws specifically directed toward online products and services. However, due to the increasing popularity and use of the Internet and online services, it is possible that laws and regulations may be adopted with respect to the Internet or online products and services. These laws and regulations could cover issues such as online contracts, user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, advertising, intellectual property rights and information security. Applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy are uncertain. Several jurisdictions have proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies.

While located in the United States, the Company has positioned itself to take advantage of foreign content entertainment, the fast-growing broadband multimedia information dissemination opportunities, and Internet content services market in foreign markets. Management intends to build its business in the People's Republic of China, Hong Kong, Macao and Taiwan (collectively, "Greater China"). In all of these countries, businesses face varying degrees of government regulation. Mainland China is heavily regulated. Because the Company is in a start-up mode, it is presently impossible to predict the government regulation, if any, to which the Company may be subject. The use of assets and/or conduct of businesses that the Company may acquire could subject it to environmental, public health and safety, land use, trade, or other governmental regulations and state or local taxation. The Company is presently attempting to ascertain the effects of such government regulation on the prospective business of the Company. Under the present circumstances, the Company is in the development stage. Therefore, it is not feasible to predict with any degree of accuracy the impact of government regulation on the Company's operations. The inability to ascertain the effect of government regulation on the Company's prospective business activity creates a high degree of risk.

Regulatory Overview

It is possible that additional laws and regulations may be adopted with respect to the entertainment industry. Such new laws or regulations may cover issues such as content, pricing, consumer protection, electronic commerce, taxation, copyright infringement and other intellectual property issues. The Company cannot predict the impact, if any, that any future regulatory changes or development may have on its business, financial condition and results of operations. Changes in the regulatory environment that directly or indirectly affect the ability to market products or services, or increase the likelihood or scope of competition, could have a material adverse effect on the Company's business, financial condition and results of operations.

Employees

The Company has three full time employees. Part time employees are hired from time to time depending on increased marketing or additional projects in which the Company may be involved.

RESULTS OF OPERATIONS

The following are the results of operation as of and for the three months ended March 31, 2001 and 2000. As indicated in the accompanying financial statements, the Company did not have any material operations for the three months ended March 31, 2000.

Net Income

The Company had a net loss of $659,480 for the three months ended March 31, 2001. The net loss for the quarter was primarily attributable to non-cash expense on an accounts payable and accrued consulting fees that were, $462,000 and $120,000, respectively.

Sales

The Company did not have any revenues during the three-month periods ended March 31, 2001 and 2000.

Expenses

Total expenses were $659,480 for the three months ended March 31, 2001.

Total expenses included $462,000 in connection with the payable due the Company's legal counsel. The payment was made with 200,000 shares of the Company's common stock valued at $2.31 per share, the fair market value at the time of issuance. Expenses also included $120,000 in accruals for consultants and officers pursuant to their respective employment agreements. Rent expense was $16,200.

Liquidity and Capital Resources

On March 31, 2001, the Company had cash of $573 and a working capital deficit of $1,980,571. The working capital deficit represents primarily obligations from operations and amounts due related parties for advances and services.

Net cash used in operating activities was $29,114 for the three months ended March 31, 2001. The difference was primarily attributable to an increase in loss from operations in the amount of $659,480, partially offset by an increase in accounts payable of $122,066 and $462,000 in common stock issuances for services.

Cash used in financing activities totaled $7,500 for the three months ended March 31, 2001 as a result of the incurrence of a loan receivable in the amount of $7,500 to an unrelated party. The Company will need to raise funds during the next twelve months for its operations. In addition, the Company's auditors expressed doubt as to the Company's ability to continue as a going concern. Failure to raise additional capital during the next twelve months could have a material adverse effect on the Company. The Company estimates it will need $3 to 5 million over the next twelve months and $14 million over the long-term in order to develop its business plan.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Capital Lake S.A. v. CathayOne, Inc., Case No. 01-CV-1266 (SAS) filed in the United States District Court for the Southern District of New York. The case involves a claim to entitlement to a $300,000 finder's fee/brokerage commission. The Company denies liability and is defending the action. The case is in its early stages. No discovery has occurred. The Company is unable to express an opinion on the outcome at this time, although the Company does feel it has a meritorious defense to the claim.

There are no other pending legal claims against the Company.

The Company is aware of a claim being asserted by its former legal counsel for fees in the approximate amount of $528,000, which amount is contested by the Company. The Company is attempting to settle this claim.

Item 2. Changes in Securities

During the quarter ended March 31, 2000, the Company issued 200,000 shares of its common stock in connection with legal services rendered to the Company.

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

None.

b) Reports on Form 8-K

None.

SIGNATURES

In accordance with 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.

/s/ Peter Lau, Chief Executive Officer

Date: May 18, 2001 Peter Lau, Chief Executive Officer