

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.)

Form 10QSB

November 24, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2004

Commission file number 0-26559

CIK No. 0001082603

CHINA MOBILITY SOLUTIONS, INC.
(Exact name of registrant as specified in this charter)

XIN NET CORP.

(Former name)

Florida

330-751560

(State of other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

#900 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (604)632-9638

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 the filing requirements for at least the past 90 days.

YES NO

As of August 6, 2004, there were 15,826,670 shares of \$0.001 par value common stock outstanding.

1

CHINA MOBILITY SOLUTIONS, INC.

INDEX TO QUARTERLY REPORT
ON FORM 10-QSB
September 30, 2004

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

PART I. FINANCIAL INFORMATION	PAGE
ITEM 1. Consolidated Financial Statements:	
Consolidated Balance Sheets.....	F-1
Consolidated Statements of Operations.....	F-2 - F-3
Consolidated Statements of Cash Flows.....	F-4 - F-5
Notes to Consolidated Financial Statements.....	F-6 - F-11
ITEM 2. Management's Discussion and Analysis.....	3
ITEM 3. Controls and Procedures.....	8
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings.....	8
ITEM 2. Changes in Securities and Use of Proceeds.....	8
ITEM 3. Defaults Upon Senior Securities.....	8
ITEM 4. Submission of Matters to a Vote of Security Holders.....	8
ITEM 5. Other Information.....	8
ITEM 6. Exhibits and Reports on Form 8-K.....	8
SIGNATURE.....	9

ITEM 1. FINANCIAL STATEMENTS

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED BALANCE SHEETS

Stated in U.S. dollars

September
2004

(Unaudited)

ASSETS

Current Assets

Cash and Cash Equivalents	\$
Accounts receivable, net of allowance of \$nil (2003: \$58,678)	
Prepaid Expenses and Other Current Assets	

Amount due from related parties

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Assets to be disposed of

Total Current Assets

Investment - at equity
Property and Equipment, Net
Goodwill

Total Assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts Payable and Other Accrued Liabilities
Deferred Revenue
Liabilities to be disposed of
Security deposit from Sino-i.com Ltd.

Minority Interest

Commitments and Contingencies

Stockholders' Equity

Common Stock : \$0.001 Par Value
Authorized : 50,000,000
Issued and Outstanding : 15,826,670 (2003: 13,786,670)
Additional Paid In Capital
Accumulated Deficit
Accumulated Other Comprehensive Loss

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

(See condensed notes to consolidated financial statements)

F-1

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Stated in U.S. dollars

September 30,
2004 2003

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Revenue			
Mobile Marketing Services	\$	888,082 \$	- \$
Tuition fee		95,383	78,040

		983,465	78,040
Cost of revenue			
Mobile Marketing Services		236,229	-
Tuition fee		15,268	-

		251,497	-
Gross profit			
		731,968	78,040
Expenses			
Advertising and promotion		273,696	2,612
Consulting and professional		17,463	31,991
Depreciation		2,255	1,891
Foreign exchange loss (gain)		(17,219)	367
General and administrative		1,682	13,309
Rent		124,499	13,723
Salaries, wages and sub-contract		307,532	50,279

		709,908	114,172
Operating Profit (Loss)			
		22,060	(36,132)
Other Income and Expenses			
Interest income		30,290	3
Other income		9	2,493
Equity loss in undistributed earnings of investee company		-	(21,705)

		30,299	(19,209)
Profit (loss) before minority interest and			
Discontinued operations		52,359	(55,341)
Minority interest			
		-	21,198

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Loss from Continuing Operations	52,359	(34,143)
---------------------------------	--------	----------

F-2

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Stated in U.S. dollars	September 30, 2004	2003

Discontinued operations		
Loss from Assets held for sale	-	-
Profit (loss) from discontinued operations	-	2,550
Net Profit (Loss) Available to Common Stockholders	\$ 52,359	(31,593)
	=====	=====
Earnings (loss) per share attributable to common stockholders:		
Earnings (loss) from continuing operations	\$ 0.00	\$ (0.00)
Earnings (loss) from discontinued operations	0.00	0.00
Total basic and diluted	\$ 0.00	\$ (0.00)
	=====	=====
Weighted average number of common shares outstanding:		
Basic and diluted	15,826,670	13,786,670
	=====	=====

(See condensed notes to consolidated financial statements)

F-3

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(Unaudited)

Stated in U.S. dollars

2004

Cash flows from operating activities	
Net loss	\$ (151)
Less: loss from assets held for sale	
Less: loss from discontinued operations	4
Adjustments to reconcile net loss to net cash	
Provided by (Used in) operating activities	
Depreciation and amortization	
Translation adjustments	(5)
Minority interest	(4)
Equity loss of The Link Group, Inc.	8
Changes in assets and liabilities	
Increase in accounts receivable	13
(Increase) Decrease in prepaid expenses and other current assets	1
Increase in amount due from related parties	(102)
Increase (Decrease) in accounts payable	(155)
Increase (Decrease) in deferred revenue	31
Increase in liabilities to be disposed of	13
Increase in security deposits	
Net cash provided by operating activities	----- 30 -----
Cash flows from investing activities	
Purchases of property and equipment	(1)
Reduction in investment	
Cash transferred in from acquisition of Quicknet	1,47
Net cash flows provided by (used in) investing activities	----- 1,47 -----
Effect of exchange rate changes on cash	(1)
Net cash provided by continuing operations	1,78
Net cash provided by assets held for sale	
Net cash provided by (used in) discontinued operations	----- (10) -----
Increase in cash and cash equivalents	1,77
Cash and cash equivalents - beginning of period	3,30
Cash and cash equivalents - end of period	----- \$ 5,07 =====

F-4

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
 (formerly Xin Net Corp.)
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
 (Unaudited)

Supplemental Information :

Cash paid for :		
Interest	\$ -	\$ 6,573
Income taxes	-	10,978
Non-cash investment :		
Issuance of 6,120,000 common shares for the acquisition of Quicknet	\$ 1,224,000	\$ -

(See condensed notes to consolidated financial statements)

F-5

CHINA MOBILITY SOLUTIONS, INC.
 (Previously known as Xin Net Corp.)
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2004
 (Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2003 included in its Annual Report on Form 10-KSB.

The unaudited condensed consolidated financial statements include China Mobility

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Solutions, Inc. and its subsidiaries. Significant inter-company transactions and accounts have been eliminated.

Certain items have been reclassified to conform to the current period presentation. There is no effect on total results of operations or shareholders' equity.

2. Acquisition of Beijing Quicknet Telecommunication Corp. Ltd.

On June 23, 2004, the Company completed the acquisition of a 49% equity interest from the shareholders of a short message system ("SMS") provider, Beijing Quicknet Telecommunication Corp. Ltd. ("Quicknet"), located in Beijing, China through the issuance 6,120,000 (2,040,000 post-reverse split) shares of common stock of the Company. Due to the restrictions on foreign ownership of telecommunication companies in China, 2% of the equity interest of Quicknet is held by the management of Quicknet with Chinese citizenship and they will be transferred back to the Company when the China government removes the restrictions. The Company has an option to acquire the remaining 49% equity interest in Quicknet within the first year from the closing date for \$4,000,000. The Company has another option to acquire the remaining 49% equity interest in Quicknet within the second year from the closing date for \$5,000,000. As a general rule, the Company can pay these amounts by 50% in shares of the common stock of the Company and 50% in cash. The final percentage of shares versus cash can be negotiated between both parties.

Quicknet's financial information is incorporated into the consolidation of the Company effective June 30, 2004, as the transactions that occurred between the period from June 23, 2004 to June 30, 2004 were immaterial.

The value assigned to assets and liabilities acquired can be summarized as follows:

Cash and short term investments	\$ 1,477,355
Accounts receivables	90,560
Prepaid expenses	10,998
Fixed assets, net	14,930
Goodwill	1,519,982
Accounts payable and accrued liabilities	(275,130)
Unearned revenue	(1,614,695)

Fair value of net assets acquired	\$ 1,224,000
	=====

The following unaudited pro forma information is based on the assumption that the acquisition took place as of beginning of the period (January 1, 2004), with comparative information for the immediately preceding period as though the acquisition had been completed at the beginning of that period:

F-6

	2004	2003
	-----	-----
Net sales	\$ 1,192,500	\$ 143,283
	=====	=====
Net loss	\$ (43,163)	\$ (454,899)
	=====	=====

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Basic and diluted loss per share	(0.00)	(0.03)
	=====	=====

3. Disposal of Dawa Business Group Inc. ("Dawa")

On June 30, 2004, the Company entered into a Share Exchange Agreement (the "2004 Share Exchange Agreement") with Windsor Education Academy Inc. ("Windsor"), Dawa Business Group Inc. ("Dawa") and 1041571 B.C. Ltd. ("1041571") whereby the Company exchanged 102 shares, or 51%, of the issued and outstanding common stock of Dawa to 1041571 in consideration for 98 shares, or 49%, of the issued and outstanding common stock of Windsor.

The Company first acquired the 102 shares of common stock of Dawa pursuant to a prior Share Exchange Agreement, dated July 3, 2003, (the "2003 Share Exchange Agreement") between the Company, Windsor, Dawa and 1041571 whereby the Company exchanged 98 shares, or 49%, of the issued and outstanding common stock of Windsor to 1041571 in consideration for 102 shares, or 51%, of the issued and outstanding common stock of Dawa. Prior to the 2003 Share Exchange Agreement, Windsor was a wholly owned subsidiary of the Company.

At the close of the 2004 Share Exchange Agreement, the Company became the beneficial owner of all of the issued and outstanding stock of Windsor and the Company ceased to own any of the common stock of Dawa. The 2004 Share Exchange Agreement did not involve any cash consideration.

The loss on disposal of Dawa, together with the related assets and liabilities disposed of, is as follows:

Sales proceeds	\$ 26,862
Less: Current assets	(61,987)
Fixed assets	(1,617)
Goodwill	(60,312)
Other assets	(145)
Current liabilities	55,907

Loss on disposal of Dawa	\$ (41,292)
	=====

The result of Dawa operations for the six months ended June 30, 2004 and the pro forma results of operations for the six months ended June 30, 2003, which are shown for comparison purposes assuming the Company acquired Dawa as of January 1, 2003, are as follows:

	2004	2003
	-----	-----
Revenue	\$ 213,205	\$ 149,338
Operating costs	(213,567)	(146,149)
	-----	-----
Net los	\$ (362)	\$ 3,189
	=====	=====

4. Discontinued Operations - Internet-related Services

On February 26, 2003, the Company entered into an agreement to sell the internet-related services provided in China to a subsidiary company of Sino-i.com Ltd., a company listed on the Hong Kong Stock Exchange, for total consideration of RMB 20 million (approximately US\$2,415,800), which the Company has received and classified as a security deposit as of September 30, 2004. The transaction is subject to the approval of shareholders.

The loss on disposal of the internet-related business, together with the related

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

assets and liabilities disposed of, is as follows:

F-7

Sales proceeds	\$ 2,415,800
Less: Current assets	(1,992,665)
Capital assets	(442,820)
Current liabilities	3,338,783

Gain on disposal of internet-related business	\$ 3,319,098
	=====

The results of the discontinued internet-related services for the nine months ended September 30, 2004 and 2003 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Revenue	\$ -	\$ -	\$ -	\$ 2,372,554
Operating costs	\$ -	\$ -	\$ -	\$ (2,695,541)

Net loss	\$ -	\$ -	\$ -	\$ (322,987)
				=====

5. Property and Equipment

Property and equipment consist of the following:

	September 30, 2004	December 31, 2003
Equipment	\$ 40,483	\$ 37,959
Library	9,554	9,554
Furniture	12,262	10,683
	-----	-----
Total	62,299	51,397
Less: Accumulated depreciation	(39,641)	(37,959)
	-----	-----
Net book value	\$ 22,658	\$ 13,438
	=====	=====

The depreciation expense charged to continuing operations for the nine-month period ended September 30, 2004 was \$3,890.

6. Investment in The Link Group, Inc. ("Link")

Pursuant to a Share Exchange Agreement dated December 20, 2001, the Company paid \$200,000 cash for 3,882,700 shares of The Link Group, Inc. ("Link").

Pursuant to a Subscription Agreement dated January 18, 2002, the Company paid \$600,300 in a private placement of Link for 14,500,000 (pre-reverse one for four split) common shares at \$0.0414 per share, as well as 10,875,000 special warrants convertible into 10,875,000 post-reverse one for four split common shares on or before January 31, 2004 at no additional consideration. The Company exercised the 10,875,000 special warrants on March 12, 2002. An option to purchase an additional 7,500,000 post-reverse one for four split common shares at \$0.04 per share, or \$300,000, until February 15, 2002, was also granted to the Company, which was not exercised.

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

By an agreement dated January 21, 2002, Link agreed to purchase all of the outstanding shares of Protectserve Pacific Ltd. ("PSP") through the issuance of 37,500,000 (post-reverse one for four split) common shares. Link has the right to buy back its shares at \$0.001 per share from these individuals if PSP's after tax profit is less than Hong Kong \$9 million dollars ("HKD") for the twelve months ending December 31, 2002. The buy back formula is for every HKD \$333,333 that PSP falls short of the HKD \$9 million after tax profit, Link can buy back one million (post-reverse one for four split) common shares from these individuals.

On February 18, 2002, the shareholders of Link approved the reverse split of the issued and outstanding common shares of Link at the ratio of one for four, thereby making the Company's total Link shares held equal to 15,370,675 shares, representing 28.8% of the total issued and outstanding shares of Link. On October 14, 2002, Link cancelled 8,300,000 outstanding common shares as part of

F-8

the consideration of the disposition of its subsidiary company and thereafter the Company's holding in Link correspondingly increases to 34.1%. On March 28, 2003, Link issued 3,000,000 common shares and cancelled 14,000,000 common shares and thereafter the Company's holding in Link correspondingly changes to 24.8%. On August 5, 2003, Link cancelled 22,200,000 shares pursuant to a repurchase agreement and thereafter the Company's holding in Link correspondingly increases to 38.6%. On October 17, 2003, Link issued 36,000,000 shares for the acquisition of New Unicorn Holdings Ltd. and thereafter the Company's holding in Link correspondingly decreases to 20.26%.

The Company accounts for its investment in Link on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. As of September 30, 2004, the investee company's financial statements were not sufficiently timely for the Company to apply the equity method currently. Therefore, the Company recorded its share of the investee's losses from the most recent available financial statements, which were the audited financial statements as of December 31, 2003, as filed with the Securities and Exchange Commission on August 2, 2004:

Original cost of 15,370,675 shares of The Link Group, Inc.	\$ 800,300
Equity in undistributed earnings of investee company	(628,049)

Investment - at equity	\$ 172,251
	=====

7. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding during the period increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three and nine months ended September 30, 2004 and 2003:

	Three months ended September 30,		Nine S
	2004	2003	
Income (Loss) from continuing operations	\$ 52,359	\$ (34,143)	\$ (110,1
Income (Loss) from discontinued operations	-	2,550	(41,6
Net income (loss) for the period	52,359	(31,593)	(151,8
Weighted-average number of shares outstanding	15,826,670	13,786,670	14,531,1
Effective of dilutive securities:			
Dilutive options - \$3.90	-	-	
Dilutive options - \$0.30	-	-	
Dilutive warrants - \$1.50	-	-	
Dilutive warrants - \$2.25	-	-	
Dilutive potential common shares	-	-	

The effect of outstanding options and warrants was not included as the effect would be antidilutive.

On June 24, 2004, the Company carried out a 3 for 1 reverse stock-split. Figures of prior periods have been retroactively restated to reflect the effect of the reverse stock-split.

F-9

8. Share Purchase Warrants

On April 1, 2003, the Company extended its outstanding 5,884,990 (1,961,663 post-reverse split) million Series "A" Share Purchase Warrants as follows:

- (i) the exercise price of the Series "A" Share Purchase Warrants is adjusted to \$0.50 (\$1.50 post-reverse split) each and their term is extended to March 31, 2005;
- (ii) upon exercise of one Series "A" Share Purchase Warrants at \$0.50 (\$1.50 post-reverse split), the holder will receive one common share of the company and one Series "B" Share Purchase Warrant; and
- (iii) the exercise price of the Series "B" Share Purchase Warrants is adjusted to \$0.75 (\$2.25 post-reverse split) each and their term is extended to March 31, 2006;
- (iv) upon exercise of one Series "B" Share Purchase Warrant at \$0.75 (\$2.25 post-reverse split), the holder will receive one common share of the Company.

9. Stock Options

On July 23, 2004, the Company granted incentive stock options for 1,155,000 shares at a price of \$0.30 per share exercisable up to July 23, 2007, to five

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

directors. All the options were vested immediately.

Options outstanding at September 30, 2004 were 3,291,000 with option prices ranging from \$0.30 to \$3.90. No options were canceled, forfeited, or exercised during the nine-month period ended September 30, 2004. The weighted average exercise price of the options outstanding and exercisable is \$2.64 and the weighted average remaining contractual life is 1.1 years.

The Company accounts for its stock-based compensation plans using the intrinsic value method whereby no compensation costs have been recognized in the financial statements for stock options granted to employees, officers and directors. If the fair value method had been used for options granted, a value of \$267,300 would be recorded for the quarter ended September 30, 2004. The Company's net loss and net loss per share would approximate the following pro forma amounts:

	Three months ended September 30, 2004 -----	Nine months ended September 30, 2004 -----
Net profit (loss) as reported	\$ 52,359	\$ (41,654)
Net loss pro forma	\$ (214,941)	\$ (308,954)
Pro forma net loss per common share basic and diluted loss per share	\$ (0.01)	\$ (0.02)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	3.65%
Expected life of options in years	1 to 3 years
Expected volatility	184%
Dividend per share	\$0.00

10. Segment and Geographic Data

The Company's reportable segments are geographic areas. Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items, and, as it relates to segment profit (loss), income and expenses not allocated to reportable segments.

F-10

	Canada	China	Other	T
Three months ended September 30, 2004				
Revenue from continuing operations	\$ 995,383	\$ 888,082	\$ -	\$
Operating loss	68,768	(35,478)	(11,230)	
Total assets	145,885	9,214,140	172,468	

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Three months ended September 30, 2003

Revenue from continuing operations	\$ 78,040	\$ -	\$ -
Operating loss	3,341	974	(40,447)
Total assets	176,499	5,956,305	479,094

Three months ended September 30, 2004

Revenue from continuing operations	\$ 218,298	\$ -	\$ -
Operating loss	(17,354)	(34,781)	(42,734)
Total assets	145,885	9,214,140	172,468

Three months ended September 30, 2003

Revenue from continuing operations	\$ 221,323	\$ -	\$ -
Operating loss	(50,334)	66	(76,461)
Total assets	176,499	5,956,305	479,094

F-11

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

The information presented here should be read in conjunction with China Mobility Solutions Inc.'s consolidated financial statements and related notes. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. When used in this discussion, the words "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected due to a number of factors beyond the Company's control. The Company does not undertake to publicly update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are also urged to carefully review and consider the Company's discussions regarding the various factors, which affect its business, included in this section and elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable and allowance for doubtful accounts, intangible and long-lived assets, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

Revenues consist of tuition fees earned and mobile marketing service fees. Revenue is recognized when the following criteria are met: persuasive evidence that an arrangement exists; delivery has occurred or services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. If all of the above criteria have been met, revenues are principally recognized. Revenues derived from education and mobile marketing services are recognized as the services are performed and amounts received from customers in advance of revenue recognition are deferred and classified on the balance sheet as "deferred revenue." Changes in these factors could materially impact our financial position or our results of operations.

Intangible and Long-lived assets

We evaluate our intangible assets and long-lived assets, which represent goodwill and fixed assets, for impairment annually and when circumstances indicate the carrying value of an asset may not be recoverable. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. We do not believe any impairment exists for any of these types of assets as of September 30, 2004.

3

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS" No. 109), "Accounting for Income Taxes," whereby deferred income tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce deferred income tax assets to the amount expected to be realized.

Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. SFAS 5, Accounting for Contingencies, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operations.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2004 AS COMPARED TO

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

THE QUARTER ENDED SEPTEMBER 30, 2003

Revenues. The Company achieved revenues of \$983,465 in the third quarter 2004 compared \$78,040 in the third quarter 2003 derived from the net sales of education courses and mobile marketing services from its subsidiaries. The Company closed the acquisition of Quicknet, a mobile solutions provider in China by the end of June, 2004. The subsidiary's performance was consolidated into the Company's third quarter financial statements, therefore, caused a significant increase in revenues. This year, the Company also disposed its ownership of the Dawa business and resumed 100% ownership of Windsor Education Academy. These changes also contributed to the revenue fluctuations.

Business Segments

During the quarter, the Company had revenues in two segments:

Windsor - Education Courses	\$	95,383
Mobile Marketing Services	\$	888,082

The cost of revenue in each segment was:

Windsor - Education Courses	\$	15,268
Mobile Marketing Services	\$	236,229

The gross profit from each of the business segments was:

Windsor - Education Courses	\$	80,115
Mobile Marketing Services		651,853

	\$	731,968

Operating Expenses. The Company incurred operating expenses of \$709,908 in the third quarter 2004 compared to operating expenses of \$114,172 in the third quarter 2003. The Company had total operating costs, including cost of sales of \$961,405 in the third quarter 2004, resulting in an operating profit of \$22,060. The increase in operations expenses is mainly caused from the operations of our mobile solution services in China. The expenses include facilities and equipment rental expenses, advertising and promotion expenses, and salaries and wage expenses. Operating expenses for the same period in 2003 was \$114,172 and primarily consists of those related to our educational services operations only.

Net Profit. The net profit in the third quarter 2004 was \$ 52,359, including \$30,290 in interest income, compared to the net loss in the third quarter 2003 of \$34,143. The changes are mainly caused by the successful operation from mobile marketing services in China.

The profit (loss) per share in 2004 and 2003 was nominal in the period.

4

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2003

Revenues. The Company achieved revenues of \$1,106,380 in the nine months ended September 30, 2004 compared to \$221,323 in the same period of 2003 derived from net sales of education courses and mobile marketing services (2004 only) from its subsidiary in China. The significant changes also derived from the results of operations from our mobile solutions services in China.

Business Segments

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

During the nine months ended September 30, 2004, the Company had revenues in two segments:

Windsor - Education Courses	\$	218,298
Mobile Marketing Services		888,082

The cost of revenue in each segment was:

Windsor - Education Courses	\$	43,641
Mobile Marketing Services		236,229

The gross profit from each of the business segments was:

Windsor - Education Courses		174,657
Mobile Marketing Services		651,853

	\$	826,510

Operating Expenses. The Company incurred operating expenses of \$921,379 in the nine months ended September 30, 2004 compared to operating expenses of \$351,052 in the same period of 2003. The Company had operating costs of \$1,201,249 in the nine months ended September 30, 2004, resulting in an operating loss of \$94,869. The increase is mainly caused from the operations of Beijing QuickNet, the mobile solution provider in China, which expenses primarily represent facilities and equipment rental expenses, advertising and promotion expenses, and salaries and wages expenses. Operating expenses for the same period in 2003 primarily consists of those related to our educational services operations only.

Loss from continuing operations. Loss from continuing operations for the nine months ended September 30, 2004 was \$110,192 after interest income of \$59,846 and \$81,273 in equity loss in investee company in 2004 in contrast to the same period of 2003 operating loss of \$166,055, including other income of \$8,541 and loss of \$66,076 in investee company. The loss for the nine months ended September 30, 2004 consists of our mobile solutions operations and our educational service operations versus the loss for the same period in 2003, which primarily consists of our educational services operations only.

The loss per share was nominal in the period in 2004 and 2003.

Loss from discontinued operations. Loss from discontinued operations in the nine months ended September 30, 2003 was \$41,654 representing the results of the disposal of the Dawa operations. Loss from discontinued operations for the nine months ended September 30, 2003 was \$322,987 representing the results of the discontinued internet-related services operations in China pending shareholder approval.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of \$5,074,164 at the quarter ended September 30, 2004, which was mainly derived from cash flows from the successful operation of the mobile marketing services in China and the sale of the ChinaDNS assets. The Company's liabilities have increased from year-end resulting from an increase in deferred revenue attributable to the Company's mobile marketing activities and current liabilities are \$8,053,925 resulting in an operating capital deficit of approximately \$400,000. \$2,435,485 in "assets to be disposed of" when disposed will also result in a reduction of liabilities by \$5,754,583. The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. Other than cash capital, its other assets would be illiquid.

Net cash flows provided by operating activities decreased to \$306,567 for the nine months ended September 30, 2004 and mainly was driven by an increase in accounts receivable and deferred revenue from our mobile marketing services activities. Net cash flows provided by operating activities during the nine months ended September 30, 2003 was \$2,204,382, which mainly represented an increase in the security deposit from the sale of our China DNS assets.

Net cash flows provided by investing activities increased to \$1,475,628 for the nine months ended September 30, 2004 primarily represented cash acquired in the acquisition of Beijing Quicknet. Net cash flows used in investing activities for the nine months ended September 30, 2003 was (\$9,178) primarily consisting of cash paid for the acquisition of property and equipment.

FUTURE PLANS

On Feb 15, 2004, the Company has entered into a Definitive Agreement to acquire 51% of a mobile solutions provider in China, Beijing Quicknet Telecommunications Corp. Ltd. (Beijing Quicknet), from non-affiliates. In order to comply with current Chinese law, the Company acquired 49% immediately upon closing at the end of June, 2004 and retained the right to acquire the 2% as soon as it obtained Government approval or achieve a legal structure (under Chinese law) which allows control of the 2%. By the end of the third quarter, the Company has gained 51% control of QuickNet through a voting arrangement. According to the Agreement, the Company has the option to acquire the remaining 49% of Beijing Quicknet within 2 years from the Closing Date, which is June 23, 2004. If the Company exercises the option to purchase the remaining 49% of Beijing Quicknet within first year from the Closing Date, the purchase price will be US\$4,000,000 (four million US dollars); if the Company exercises the option to purchase the balance of Beijing Quicknet within the second year from the Closing Date, the purchase price will be US\$5,000,000 (five million US dollars).

The Company has accumulated about 500,000 corporate accounts from its previous domain name registration and web hosting services in China. The Company wants to continue pursuing Internet related businesses in China. Acquisition of Beijing Quicknet gives the Company an opportunity to capitalize in this rapidly growing market as well as provide it with the opportunity for Beijing Quicknet to utilize these corporate accounts and generate additional revenue stream.

In order to increase revenues, the Company plans to open up more branches in China, creating newservices, and also to grow by acquiring other companies that will complement our existing service offerings.

Need for Additional Financing:

The Company believes it has sufficient capital to meet its short-term cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. However, if losses continue it may have to seek loans or equity placements to cover longer term cash needs to continue operations and expansion.

No commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover operations expenses. If future revenue declines, or operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through the sale of assets it has, or enter into the sale of stock for additional capital, none of which may be feasible when needed. The Company has no specific management ability, nor financial resources or plans to enter any other business as of this

date.

From the aspect of whether it can continue toward the business goal of maintaining and expanding the businesses in Canada and develop new business of Mobile Solution services in China, it may use all of its available capital without generating a profit.

6

The effects of inflation have not had a material impact on its operation, nor is it expected to in the immediate future.

Market Risk:

The Company does not hold any derivatives or investments that are subject to market risk. The carrying values of any financial instruments, approximate fair value as of those dates because of the relatively short-term maturity of these instruments which eliminates any potential market risk associated with such instruments.

Future Trends:

On the Education Services side, we have operated for over a year now and the competition is very fierce in the market. The Canadian government has tightened its budget on English training for new immigrants. This tightening leads to reduced government funding for Windsor Education Academy and this will have negative effects on its revenues. The Canadian government has also adopted a stricter system to choose schools that can be funded by the government and every school needs to re-register with the government. There is no assurance that Windsor Education Academy will continue receiving government funding in the coming years.

For our mobile business solutions business in China, we have operated for over a year now. The Chinese economy has been among the fastest growing in the world for the past several years. Growth is expected to maintain in 2004. China has one of the largest and fastest-growing telecom markets in the world, with the mobile phone sector in particular having become the worlds biggest and the number of the subscribers continuing to grow. Total SMS (short messaging services) revenues in China grew by 75% in 2003 to US\$248 million. SMS revenue growth in China is projected by Pacific Growth Equities of San Francisco to be 60% in 2004. As the mobile solutions market continues to grow, there will be more competitors coming into the market. Companies that focused on the individual mobile value-added services market may put more effort into the commercial mobile solution services market, which is China Mobility Solutions' current focus. The Company may face fierce competition on the price of the products as well as the increase on human resource cost if the Company wants to maintain a strong management and technical team. There is no assurance that our mobile solution business will continue developing at the same speed as it did this year.

The information presented here should be read in conjunction with China Mobility Solutions, Inc.'s consolidated financial statements and related notes. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. When used in this discussion, the words "believes," "anticipate," "expects," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected due to a number of factors beyond the Company's control. The Company does not undertake to publicly update or revise any of its forward-looking statements even if experience or future changes show

that the indicated results or events will not be realized. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are also urged to carefully review and consider the Company's discussions regarding the various factors, which affect its business, included in this section and elsewhere in this report.

7

ITEM 3. CONTROLS AND PROCEDURES

a. Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, September 30, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

b. Changes in Internal Control over Financial Reporting:

There were no changes in the Company's internal control over financial reporting identified in connection with the Company evaluation of these controls as of the end of the period covered by this report that could have significantly affected those controls subsequent to the date of the evaluation referred to in the previous paragraph, including any correction action with regard to significant deficiencies and material weakness.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings - None.

Item 2. Changes in 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) The following are filed as Exhibits to this Quarterly Report. The numbers refer to the Exhibit Table of Item 601 of Regulation S-K:

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Exhibit 31.1 and 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT

Exhibit 32.1 and 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(b) Reports on Form 8-K filed during the three months ended September 30, 2004, which are incorporated by reference:

- o July 12, 2004 - Item 2
- o July 26, 2004 - Item 5

8

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 of the undersigned thereunto duly authorized.

Dated: November 19, 2004

CHINA MOBILITY SOLUTIONS INC.

by: /s/ Xiaoqing (Angela) Du

Angela Du, President

9