

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

Form 10QSB/A

May 12, 2006

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB/A

Amendment No. 2

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 for the quarterly period ended September 30, 2005

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

CHINA MOBILITY SOLUTIONS, INC.

(Exact name of small business issuer as specified in its charter)

XIN NET CORP.

(Former name of registrant)

Florida

(State or other jurisdiction
of incorporation or organization)

330-751560

(IRS Employer Identification No.)

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

(Address of principal executive offices)

(604) 632-9638

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 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

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB/A
subject to such filing requirements for the past 90 days. **Yes** **No**

Number of shares of common stock outstanding as of September 30, 2005: **20,011,670**

[RIDER X]

CHINA MOBILITY SOLUTIONS, INC.
AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-QSB/A
AMENDMENT NO. 2
PERIOD ENDED SEPTEMBER 30, 2005

EXPLANATORY PARAGRAPH

This Form 10-QSB/Amendment No. 2 for China Mobility Solutions, Inc. (the “Company”) is identical to Amendment No. 1, except for this Explanatory Paragraph, and was filed in response to SEC comments concerning: (a) Note 4, the Company’s completion of the acquisition of the remaining 49% interest of Beijing Quicknet Telecommunications Corp. Ltd.; (b) Note 5, Convertible Debentures - the accounting treatment for the convertible debentures issued in the Company’s August 2005 private placement was revised throughout the Report, and (c) Item 4 - Controls and Procedures was revised to disclose changes implemented by the Company subsequent to the period ended March 31, 2005, to its internal controls and procedures with regard to material weaknesses previously identified.

INDEX TO FORM 10-QSB

Page No.

PART I

<u>Item 1. Financial Statements</u>	3
-------------------------------------	---

<u>Consolidated Balance Sheet - September 30, 2005 (unaudited)</u>	4
--	---

<u>Consolidated Statements of Operations - Three Months and Nine Months Ended September 30, 2005 and 2004 (unaudited)</u>	5
---	---

<u>Consolidated Statements of Stockholders' Equity</u>	6
--	---

<u>Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2005 and 2004 (unaudited)</u>	7
--	---

<u>Consolidated Statements of Deficit</u>	8
---	---

<u>Notes to Consolidated Financial Statements (unaudited)</u>	9-14
---	------

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
--	----

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	17
---	----

<u>Item 4. Controls and Procedures</u>	18
--	----

PART II

<u>Item 1. Legal Proceedings</u>	19
----------------------------------	----

<u>Item 2. Changes in Securities</u>	19
--------------------------------------	----

<u>Item 3. Defaults Upon Senior Securities</u>	21
--	----

<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	21
--	----

<u>Item 5. Other Information</u>	21
----------------------------------	----

<u>Item 6. Exhibits and Reports on Form 8-K</u>	21
---	----

<u>Signature Page</u>	22
-----------------------	----

Index

ITEM 1. FINANCIAL STATEMENTS.

The financial statements have been adjusted with all adjustments, which, in the opinion of management, are necessary in order to make the financial statements not misleading.

For financial information, please see the financial statements and the notes thereto, attached hereto and incorporated herein by this reference.

The financial statements have been prepared by China Mobility Solutions, Inc., a Florida corporation (the "Company"), without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These financial statements include all of the adjustments which, in the opinion of management, are necessary to a fair presentation of financial position and results of operations. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the audited financial statements at December 31, 2004, included in the Company's Form 10-KSB.

Cautionary and Forward Looking Statements

In addition to statements of historical fact, this Form 10-QSB contains forward-looking statements. The presentation of future aspects of the Company found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied in those statements. Important facts that could prevent the Company from achieving any stated goals include, but are not limited to, the following:

Some of these risks might include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties;

(h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services, the Company may not be able to attract or retain qualified executives and technology personnel, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the Company's businesses.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB filed by the Company in 2004 and any Current Reports on Form 8-K filed by the Company.

-3-

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED BALANCE SHEETS
September 30, 2005 and December 31, 2004
(Unaudited)

Stated in U.S. dollars	2005 (Unaudited)	2004 (Audited)
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 7,634,523	\$ 5,380,622
Accounts receivable	6,204	34,560
Prepaid Expenses and Other Current Assets	348,373	33,070
Amount due from related parties	21,531	18,322
Total Current Assets	8,010,631	5,466,574
Investment	1	1
Property and Equipment, Net	6,988	6,549
Goodwill	4,802,520	973,906
Total Assets	\$ 12,820,140	\$ 6,447,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Other Accrued Liabilities	\$ 2,338,873	\$ 340,824
Deferred Revenue	2,474,458	2,111,698
Convertible Debentures (Note 4)	3,350,000	-
Amount due to related parties	500	-
Total Current Liabilities	8,163,831	2,452,522
Minority Interest	-	32,791
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock : \$0.001 Par Value		
Authorized : 50,000,000		
Issued and Outstanding : 20,011,670 (2004: 15,826,670)	20,012	15,827
Additional Paid In Capital	18,442,826	8,770,378
Subscription Receivable	(140,000)	-
Accumulated Deficit	(13,469,927)	(4,640,956)
Accumulated Other Comprehensive Loss	(196,602)	(183,532)

Total Stockholders' Equity		4,656,309		3,961,717
Total Liabilities and Stockholders' Equity	\$	12,820,140	\$	6,447,030

(The accompanying notes are an integral part of these consolidated financial statements)

-4-

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months and nine months ended September 30, 2005 AND 2004
(Unaudited)

Stated in U.S. dollars	Three months ended September 30, 2005	September 30, 2004	Nine months ended September 30, 2005	September 30, 2004
Revenue				
Mobile marketing services	\$ 1,190,328	\$ 888,082	\$ 3,376,829	\$ 888,082
Tuition fee	53,100	95,383	160,408	218,298
	1,243,428	983,465	3,537,237	1,106,380
Cost of revenue				
Mobile marketing services	368,552	236,229	903,022	236,229
Tuition fee	16,596	15,268	43,614	43,641
	385,148	251,497	946,636	279,870
Gross profit	858,280	731,968	2,590,601	826,510
Expenses				
Advertising and promotion	253,970	273,696	663,402	280,471
Commission	359,500	-	359,500	-
Consulting and professional	186,736	17,463	214,421	56,800
Depreciation	765	2,255	1,933	3,890
Fair value of warrants issued	6,891,470	-	6,891,470	-
Foreign exchange gain	(97,536)	(17,219)	(92,942)	(8,801)
General and administrative	223,239	1,682	280,132	59,761
Interest - intrinsic value of the conversion feature	1,052,863	-	1,052,863	-
Investor relations	87,825	-	175,650	-
Rent	224,421	124,499	554,370	150,060
Salaries, wages and sub-contract	344,797	307,532	1,034,949	379,198
Stock-based compensation	126,000	-	126,000	-
Website development	-	-	80,000	-
	9,654,050	709,908	11,341,748	921,379
Operating Income (Loss)	(8,795,770)	22,060	(8,751,147)	(94,869)
Other Income and Expenses				
Interest income	24,211	30,290	60,625	59,846
Other income	1	9	20	1,470
Equity loss	-	-	-	(81,273)
	24,212	30,299	60,645	(19,957)

Income (Loss) before minority interest and discontinued operations	(8,771,558)	52,359	(8,690,502)	(114,826)
Minority interest	(6,141)	-	(138,469)	4,634
Income (Loss) from Continuing Operations	(8,777,699)	52,359	(8,828,971)	(110,192)
Discontinued operations				
Loss from discontinued business press operations	-	-	-	(41,654)
Net Income (Loss) Available to Common Stockholders	\$ (8,777,699)	\$ 52,359	\$ (8,828,971)	\$ (151,846)
Earnings (loss) per share attributable to common stockholders:				
Earnings (loss) from continuing operations	\$ (0.49)	\$ 0.00	\$ (0.52)	\$ (0.01)
Earnings (loss) from discontinued operations	0.00	0.00	0.00	-0.00
Total basic and diluted	\$ (0.49)	\$ 0.00	\$ (0.52)	\$ (0.01)
Weighted average number of common shares outstanding:				
Basic and diluted	17,929,279	15,826,670	16,996,285	14,531,196

(The accompanying notes are an integral part of these consolidated financial statements)

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the nine months ended September 30, 2005 and December 31, 2004
(Unaudited)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Subscription Receivable	Accumulated Other		Total
					Accumulated Deficit	Comprehensive Loss	
Balance, December 31, 2003	41,360,010	\$ 41,360	\$ 8,194,045	\$ -	\$ (7,659,628)	\$ (163,763)	\$ 412,014
Issuance of common stock for acquisition of Quicknet on June 23, 2004	6,120,000	6,120	544,680				550,800
Reverse stock split 3:1 on June 24, 2004	(31,653,340)	(31,653)	31,653				-
Net income for the year ended December 31, 2004					3,018,672		3,018,672
Foreign currency translation adjustments						(19,769)	(19,769)
Balance, December 31, 2004	15,826,670	\$ 15,827	\$ 8,770,378		\$ (4,640,956)	\$ (183,532)	\$ 3,961,717
Issuance of common stock for cash on exercise of stock options on February 24, 2005 @\$0.30	495,000	495	148,005				148,500
Issuance of common stock for services rendered	600,000	600	350,700				351,300
	500,000	500	199,500				200,000

Issuance of common stock for cash on exercise of stock options on September 1, 2005 @ \$0.40				
Issuance of common stock for cash on exercise of stock options on September 1, 2005 @ \$0.35	2,590,000	2,590	903,910	906,500
Stock-based compensation			126,000	126,000
Fair value of Series 'C' warrants issued			3,254,305	3,254,305
Fair value of Series 'D' warrants issued			3,637,165	3,637,165
Intrinsic value of the conversion feature of the convertible debentures			1,052,863	1,052,863
Subscription receivable upon the exercise of stock options on September 1, 2005 @ \$0.35				(140,000)