

Edgar Filing: XIN NET CORP - Form 10KSB

XIN NET CORP
Form 10KSB
April 16, 2004

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

FOR THE YEAR ENDED DECEMBER 31, 2003

General Form for Registration of Securities of Small Business Issuers
Commission file number 0-26559

CIK No. 0001082603

XIN NET CORP.

(Exact name of registrant as specified in this charter)

Florida

330-751560

(State of other jurisdiction (I.R.S. Employer of incorporation or organization)
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

Securities Registered to be Pursuant to Section 12(b) of the Act:

NONE

Securities Registered to be Pursuant to Section 12(g) of the Act

COMMON STOCK \$.001 PAR VALUE

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

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year: \$475,309.

Transitional Small Business Disclosure Format:

Yes No

Edgar Filing: XIN NET CORP - Form 10KSB

Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2003: \$3,298,850 at \$.10 per share.

Number of outstanding shares of the registrant's no par value common stock, as of March 31, 2004: 46,360,010.

2

TABLE OF CONTENTS

PART I

Item 1. Business

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

PART II

Item 5. Market for Registrant's Common Stock and Security Holder Matters

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7. Financial Statements and Supplementary Data

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Item 8A. Controls and procedures

PART III

Item 9. Directors and Executive Officers of the Registrant

Item 10. Executive Compensation

Item 11. Security Ownership of Certain Beneficial Owners and Management

Item 12. Certain Relationships and Related Transactions

PART IV

Item 13. Exhibits and Reports on Form 8-K

Item 14. Audit Fees

Signature Page

3

PART I

Edgar Filing: XIN NET CORP - Form 10KSB

ITEM 1. BUSINESS

(a) General Description and Development of Business.

PREVIOUS HISTORY

On September 6, 1996, Xin Net Corp. was incorporated under the laws of the State of Florida under the name of Placer Technologies, Inc. It conducted a small public offering of 200,000 shares @ \$.25 per share to achieve \$50,000 in capital. In December 1996 a Rule 15c2-11 filing resulted in trading approval on the OTCBB.

The Company's initial primary service consisted of developing web home pages for small businesses in USA. It generated minimal revenues in 1996.

On April 2, 1997, the Company acquired 100% interest of InforNet Investment Limited ("InforNet"), a Hong Kong corporation. In August 1997 InforNet entered into a joint venture agreement with Xin Hai Technology Development Ltd., ("Xin Hai"), Xin Hai was an experienced internet-related services provider, but the business suffered losses and was sold and discontinued in 2001.

On June 11, 1997, the Company purchased 100% interest of InforNet Investment Corp., a British Columbia corporation. InforNet Investment Corp. is the subsidiary which manages daily operations of the Company.

On July 24, 1998, the Company changed its name from Placer Technologies, Inc. to Xin Net Corp.

CORPORATE OVERVIEW

Xin Net Corp.'s structure showing its subsidiaries is as follows, with the jurisdiction of incorporation of each subsidiary included in parentheses:

Xin Net Corp.
(Florida, USA)

InforNet Investment Corp.
(100% Owned)
(BC., Canada)

InforNet Investment Ltd.
(100% Owned)
(Hong Kong)

Windsor Education Academy Inc.
(51% Owned)
(BC., Canada)

Dawa Business Group, Inc.
(51% Owned)
(BC, Canada)

Xinbiz Corp.
(British Virgin Islands)
(100% Owned)
(Dormant)

Xinbiz Ltd.
(Hong Kong)
(Xinbiz Corp. 100% owned)
(Dormant)

The Company also incorporated Xinbiz Corp. (British Virgin Islands) on January 14, 2000 and its subsidiary Xinbiz Ltd. (Hong Kong) on March 10, 2000. Both of these companies are wholly owned subsidiaries. Xinbiz Corp. and Xinbiz Ltd. do not have any operations.

Through Xin Net Corp.'s wholly owned subsidiary, Infonet Investment Ltd. (Hong Kong), the Company formed a joint venture with Xin Hai Technology Development Ltd. for upgrading telecommunication technology and services in the PRC. This evolved into an internet-focused service provider and e-commerce solutions business.

The Company decided in May 2001 to focus its business in China on domain name registration and web-hosting services, and to discontinue Internet access provision services as soon as practicable. On June 22, 2001 the Company entered into an agreement to sell its ISP assets (Xin Hai).

The price for the sale was \$700,000 (USD) payable to in Renminbi at the official exchange rate. As of December 31, 2003, \$500,000 has been received for the transaction. A loss provision of \$200,000 has been made against the balance of the sales price as the Company has determined that the purchaser will not be able to pay the remaining balance.

Since the Company started its Internet-related business in China, it has seen rapid growth in Internet use in China; but it has also seen an equal if not greater growth in companies entering this arena. As a result, the industry experienced severely reduced operating margins and continued losses. Although the Company was considered an early leader in the Domain Name Registration field, due to the lack of adequate funding, future growth potential against many competitors was limited at best. The Company had struggled for several years to break even and was hoping for some meaningful funding to grow, but the plan was nullified when the funding failed to materialize. As China becomes more and more open according to the terms of the WTO, the world's large well-funded companies have been given access to the China market and seriously compromised the Company's competitive position.

In February, 2003, the Company signed an agreement to sell the Company's China assets (Domain name registration) to a subsidiary of Sino-i.com Limited, a Hong Kong Stock Exchange listed company for a total consideration of Rmb 20 million (approx. US\$ 2.4 million). Infonet Investment Limited is the Company's wholly owned Hong Kong subsidiary that controls the Company's interest in Xin Net Telecom Corp. The Company has received all of the purchase price.

Education Business

In 2002, the Company redirected its resources to the education and training field. In January 6, 2003, the Company announced the acquisition of Windsor Education Academy Inc., a Richmond, British Columbia based school specializing in English as a Second Language (ESL) courses to foreign students. Total consideration was C\$ 200,000 (about US\$ 128,000). Windsor Education Academy Inc., a Richmond, British Columbia based school offers English as a Second Language (ESL) courses to foreign students. Windsor is government certified. The Company will help Windsor to expand locally as well as internationally into China and Southeast Asia. The Company will look for further companies in this market area with the goal of introducing foreign accredited programs into the China market.

Xin Net Corp. currently maintains an office at: #900 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2 (telephone number is 1-604-632-9638).

New Acquisition in 2004

Edgar Filing: XIN NET CORP - Form 10KSB

In 2004, the Company entered into a Definitive Agreement to acquire 51% of a SMS provider in China, Beijing Quicknet Telecommunications Corp. Ltd. (Beijing Quicknet), from non-affiliates. In order to comply with current Chinese law, the Company will acquire 49% immediately upon closing and will retain the right to acquire the 2% as soon as it is able to obtain Government approval or achieve a legal structure (under Chinese law) which allows control of the 2% (thereby aggregating 51%).

On Closing Date, the Company intends to acquire 49% of Beijing Quicknet for a price of US\$3,060,000 (three million and sixty thousand US dollars) in form of issuing 6,120,000 (six million one hundred and twenty thousand) common shares of the Company's stock at a deemed price of US\$0.50 per share. The remaining 2% will be conveyed for US\$100 when either of the following is completed to the satisfaction of the Company (1) the appropriate government ministry in China approving the transfer of the 2%, or (2) an acceptable legal mechanism for the transfer of the 2% ownership is arranged. Furthermore, the Company has the option to acquire the remaining 49% of Beijing Quicknet within 2 years from the Closing Date. 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 remaining 49% 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 purchase price will be in the form of a combination of cash and the issuance of common shares of the Company.

The Company will have the right to appoint all of the directors of Beijing Quicknet after the closing.

6

Discontinued Internet Services

Up until late 2002, the Company business was focused on domain name registration, webhosting and web design services under the ChinaDNS banner. It operated the website www.chinadns.com, the first in the PRC to offer online site registration. In October 1999, ChinaDNS was approved as an Official Agent of Network Solutions, Inc.

Due to the continued loss on operations (\$254,035 in 2002). In 2003, the Company entered into an Agreement to sell the domain name registration business to China Enterprise of ASP for about \$2,400,000. We are treating the DNS business as discontinued operations at this time, as China Enterprise is in full control of the assets.

CURRENT BUSINESS

Education and Training

The Company is currently offering English as a Second Language (ESL) and related courses through Windsor Education Academy in the Richmond campus. The Company owns 51% of Windsor, a B.C. company.

MARKETING

Windsor Education Academy uses the printed media as well as recruitment agents to attract students. Word of mouth is also an important endorsement. Windsor is also a British Columbia Provincial Government endorsed ESL provider, receiving students from government programs, where the fee is paid by the government. Windsor is continuously working to improve its recognition for

Edgar Filing: XIN NET CORP - Form 10KSB

quality and service with the British Columbia Provincial Government.

7

EMPLOYEES OF WINDSOR SUBSIDIARY

At the end of December 31, 2003, Windsor Education Academy had approximately eleven employees, consisting of eight full and part time teachers and three administrative personnel. The key to success is the ability to attract students either publicly or privately funded. The number of employees will change as the student body changes and there is no collectively bargaining unit at the academy.

Education and Training

Windsor Academy has a campus in Richmond, British Columbia. They are equipped with personal computers and the standard classroom fixtures.

News Advertising Service

On July 3, 2003, the Company has acquired 51% of Dawa Business Group Inc. ("Dawa") in exchange for 49% of Xin Net's subsidiary, Windsor Education Academy Inc. ("Windsor").

Dawa Business Group Inc. was acquired (51%) in a share exchange with the Windsor subsidiary to provide media connections for the Windsor subsidiary in the Chinese Language Community. Dawa achieved some revenues during the year, but the Company intends to terminate its interest due to unprofitability. The subsidiary has about 10 employees.

PRODUCTS, SERVICES, MARKETS, METHODS OF DISTRIBUTION AND REVENUES

Education and Training

The Company has redirected its resources to the education and training field. Windsor Education Academy is the first acquisition. In a recent study conducted by the OECD (Organization of Economic Co-operation and Development) and the UNESCO (United Nations Educational Scientific and Cultural Organization) titled "Financing Education - Investments and Returns", attributed education as a key ingredient in a country's economic growth. The study also examined sources of funding and found that 44% of educational expenditure for China came from private sources compared to an OECD average of 12%. Our first acquisition, Windsor, is government certified and is profitable. The Company will help Windsor to expand locally as well as internationally into China and Southeast Asia. The Company will look for further companies that fit this profile with the goal of introducing foreign accredited programs into the China market. For the past several years, supplementary education had become a multi-billion dollar business in China, the most popular being Foreign Schools, English Training, Data Processing, Accounting and a variety of other programs. Started several years ago, this trend is still ascending and with the integration of China into the world community as well as the growth in personal disposable income, we expect the growth to continue for a substantial period of time.

8

DEPENDENCE ON CLIENT BASE

Edgar Filing: XIN NET CORP - Form 10KSB

For the Education Services, there are about 100 students, Windsor is constantly relying on the printed media, word of mouth, recruiting agents and other marketing channels to increase the number of students.

News/Advertising

The Company, for its Dawa operations (through the 51% Dawa owned subsidiary) has been operating a Chinese language newspaper and press services in the Chinese language, operating primarily in British Columbia. It sells advertising and press services to the Chinese community.

Backlog of Orders: None.

Government Contracts: Windsor Education receives a number of ESL students from the Provincial Government of British Columbia under government programs.

Dawa has no government contracts.

COMPETITIVE CONDITIONS

Education Services

In Windsor's business, the supplementary education and training market is very fragmented, there are very few large ones and numerous small schools, established mostly in larger cities worldwide. There are several keys to a school's success, such as, quality of its curriculum and graduates, teachers and facilities, certifications and diplomas offered, location and accessibility, marketing and advertising, variety of programs offered, etc. The Company is striving to improve on all fronts as well as expanding through acquisitions and into the mainland China market.

News/Advertising

For Dawa, the foreign language news/advertising business is very competitive due to low cost of entry and the number of entities publishing in the locale (B.C.)

XIN NET SPONSORED RESEARCH AND DEVELOPMENT

None.

COMPLIANCE WITH RELATED LAWS AND REGULATIONS

On the Education Services side, Windsor Education Academy Inc. is governed by the Laws of the Province of British Columbia, Canada. The Company is fully licensed to conduct its business in the Province. The Company is unable to assess or predict at this time what effect the regulations or legislation could have on its activities in the future.

(a) Local regulation

The Company cannot determine to what extent its future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations on a local level in Canada.

Edgar Filing: XIN NET CORP - Form 10KSB

(b) National regulation

The Company cannot determine to what extent its future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations on a national level. (See Discussion of such laws previously under "Regulations of Internet Operations").

The value of the Company investments in PRC may be adversely affected by significant political, economic and social uncertainties in the PRC. Any changes in the policies by the government of the PRC could adversely affect the Company by, among other factors, changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, the expropriation or nationalization of private enterprises, or political relationships with other countries.

(c) Parents and Subsidiaries

Parent:

XIN NET CORP., a Florida corporation

Subsidiaries:

INFONET INVESTMENT CORP., a British Columbia corporation (100%)

INFONET INVESTMENT LTD., a Hong Kong corporation (100%)

XIN BIZ Corp (100% owned BVI Corp.) (Dormant)

XIN BIZ Limited (a Hong Kong Corp) (100% owned subsidiary of XIN BIZ Corp.)
(Dormant)

WINDSOR EDUCATION ACADEMY, INC. (51% owned British Columbia Corp.)

DAWA BUSINESS GROUP INC. (51% owned British Columbia Corp.)

The Company is a minority shareholder of THE LINK GROUP, INC. (formerly called World Envirotech, Inc.) See Company 2003 Financial Statement, Note 6.

Number of Persons Employed:

As of December 31, 2003, the Company had five employees, Xiao-qing Du, Xin Wei, Ming Ming Lu, Hui Chen, and Shanshan Hu through Infonet Investment Corp., involved in the day-to-day management of its business: Du, Chen, and Hu partly in Canada and partly in China, and Lu in Canada, and Wei in China.

BUSINESS SEGMENTS

Pending Acquisition in 2004

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

Windsor - ESL Education	\$280,723
Dawa - Chinese Language News	\$194,586

The cost of revenue in each segment was:

Windsor	\$134,340
Dawa	\$72,279

The gross profit from each of the business segments was:

Windsor	\$146,383
Dawa	\$122,307

Edgar Filing: XIN NET CORP - Form 10KSB

\$268,690

10

Note: The Registrant owns 51% of the equity in each of Windsor and Dawa. While revenues and costs of revenues are consolidated for reporting purposes, a 49% minority interest in the two companies exists, which, in effect, reduces the allocable gross profit by 49% or \$131,658.

The Company has entered into a Definitive Agreement to acquire 51% of a SMS provider in China, Beijing Quicknet Telecommunications Corp. Ltd. (Beijing Quicknet), from non-affiliates. In order to comply with current Chinese law, the Company will acquire 49% immediately upon closing and will retain the right to acquire the 2% as soon as it is able to obtain Government approval or achieve a legal structure (under Chinese law) which allows control of the 2% (thereby aggregating 51%).

On Closing Date, the Company will acquire 49% of Beijing Quicknet for a price of US\$3,060,000 (three million and sixty thousand US dollars) in form of issuing 6,120,000 (six million one hundred and twenty thousand) common shares of the Company's stock at a deemed price of US\$0.50 per share. The remaining 2% will be conveyed for US\$100 when either of the following is completed to the satisfaction of the Company (1) the appropriate government ministry in China approving the transfer of the 2%, or (2) an acceptable legal mechanism for the transfer of the 2% ownership is arranged. Furthermore, the Company has the option to acquire the remaining 49% of Beijing Quicknet within 2 years from the Closing Date. 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 remaining 49% 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 will have the right to appoint all of the directors of Beijing Quicknet after the closing.

ITEM 2. PROPERTIES

Xin Net Corp. currently maintains an office at: #900 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2 (telephone number is 1-604-632-9638). It also has an office, as part of the joint venture, in Beijing at Room 1858, New Century Office Tower, No. 6, Southern Road Capital Gym, Beijing 100044, China. Other Xin Hai/joint venture offices are in Guangzhou, Shanghai, Chengdu, Nanjing and Shenyang. Windsor Academy currently rents spaces at 7900 Alderbridge Way, Unit 100, Richmond, BC, Canada.

As of December 31, 2003, the Xin Net Corp. had the following tangible assets. (The amount is quoted in US Dollar)

(a) Real Estate: None

(b) Computers and Office Equipment: \$13,438

11

Edgar Filing: XIN NET CORP - Form 10KSB

ITEM 3. LEGAL PROCEEDINGS

On August 7, 2003, Xin Net Corp. was named as a defendant in the Supreme Court of British Columbia seeking C\$40,313 (US\$29,744) allegedly due on the contract between Edward Kheng Yoong Lee, Sidney Pak Lai Ho, Ricky Chung Hou NG, and Lilian Lee ("Plaintiffs") and XIN NET Corp. for the sale of Windsor Education Academy, Inc. XIN NET Corp. intends to vigorously defend the claim.

The Company does not believe the amount involved or the outcome to be material.

No director, officer or affiliate of Xin Net Corp., and no owner of record or beneficial owner of more than 5.0% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to Xin Net Corp. or has a material interest adverse to it in reference to pending litigation.

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

No matters were submitted during the fiscal year covered by this report to a vote of security holders of Xin Net Corp., through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(a) The Company common stock is traded on the Bulletin Board under the trading symbol XNET. The following table sets forth high and low bid prices of the its common stock for years ended December 31, 2002 and December 31, 2003 as follows:

	Bid (U.S. \$)	
	HIGH	LOW
	----	---
2003		

First Quarter	0.34	0.045
Second Quarter	0.29	0.04
Third Quarter	0.29	0.10
Fourth Quarter	0.20	0.09
2002		

First Quarter	0.38	0.21
Second Quarter	0.28	0.08
Third Quarter	0.18	0.06
Fourth Quarter	0.15	0.05

The Company shares trade on the Over the Counter Bulletin Board. Quotations, if made, represent only prices between dealers and do not include retail markups, markdowns or commissions and accordingly, may not represent actual

transactions.

12

Because of recent changes in the rules and regulations governing the trading of small issuers securities, the Company's securities are presently classified as "Penny Stock," which classification places significant restrictions upon broker-dealers desiring to make a market in these securities. It has been difficult for management to interest any broker-dealers in our securities and it is anticipated that these difficulties will continue until the Company is able to obtain a listing on NASDAQ at which time market makers may trade its securities without complying with the stringent requirements. The existence of market quotations should not be considered evidence of the "established public trading market." The public trading market is presently limited as to number of market makers in Company stock and the number of states within which its stock is permitted to be traded.

(b) As of December 31, 2003, Xin Net Corp. had approximately 5000 shareholders of record of the common stock.

(c) No dividends on outstanding common stock have ever been paid. The Company does presently have any plans regarding payment of dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS

The information presented here should be read in conjunction with Xin Net Corp's consolidated financial statements and related notes. With the pending sale of the Chinese Internet operations, the figures presented in the financial statements are significantly different from the previous year.

CHANGES IN FINANCIAL CONDITION AND BUSINESS

On December 10, 2002, Xin Net Corp. acquired Windsor Education Academy Inc., a Richmond, British Columbia based school specializing in English as a Second Language (ESL) courses to foreign students. Total consideration was C\$200,000 (about US\$128,00).

On February 26, 2003, the Company sold the interest in Xin Net Telecom Corp., the domain name registration business of the Company to a non-affiliated party ("Sino-i.com Limited") and received RMB20 million (approximately US\$2.4 million).

On July 3, 2003, the Company has acquired 51% of Dawa Business Group Inc. ("Dawa") in exchange for 49% of Xin Net's subsidiary Windsor Education Academy Inc. ("Windsor").

The Company has redirected its resources to the education and training field since the beginning of 2003. The Company helped Windsor to expand locally as well as internationally into China. For the past 12 months, revenues generated from both Windsor and Dawa are in line with the revenues in the previous year. Although Windsor has signed agreements with Chinese schools in various courses, due to the strict Visa application rule, none of the overseas students have been permitted to enter Windsor, thus generating no revenue stream from overseas students.

For the education services side, the Company is using working capital from the Domain Name sale to explore the local market, launch new courses, set up new market campaign, sign up with Universities to offer courses in order to get

Edgar Filing: XIN NET CORP - Form 10KSB

University degree, sign up with more agents, both domestic and international and provide marketing materials and financial support to those agents.

13

Changes in Financial Condition:

At December 31, 2003, the Company's assets had increased to \$6,320,612 compared to \$3,918,160 at December 31, 2002. The current assets totaled \$5,866,214 at 2003 year-end compared to \$3,460,530 at 2002 year-end. Total liabilities at year-end 2003 were \$5,870,451 compared to \$3,176,765 at 2002 year-end. At December 31, 2003 the Company had \$ 3,303,677 in cash compared to \$957,133 a year ago. All the major changes are due to the pending sale of the Internet related ChinaDNS businesses in China.

FUTURE PLANS

On Feb 15, 2004, the Company has entered into a Definitive Agreement to acquire 51% of a SMS provider in China, Beijing Quicknet Telecommunications Corp. Ltd. (Beijing Quicknet), from non-affiliates. In order to comply with current Chinese law, the Company will acquire 49% immediately upon closing and will retain the right to acquire the 2% as soon as it is able to obtain Government approval or achieve a legal structure (under Chinese law) which allows control of the 2% (thereby aggregating 51%).

The Company has accumulated more than 300,000 corporate accounts from its previous domain name registration and web hosting services in China. The Company wants to continue pursuing in Internet related businesses in China. Acquisition of Beijing Quicknet gives the Company an opportunity to capitalize in this rapidly growing market, it also gives the chance for Beijing Quicknet to utilize these corporate accounts and generate more revenue stream.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2002.

With the pending sale of the Chinese Internet operations and the new acquired subsidiaries, the figures presented in the financial statements are significantly different from the previous year.

Revenues. The Company achieved revenues of \$475,309 in 2003 in the form of net sales of education courses (Windsor) and advertisement from the newspaper from its subsidiaries. The Company had operating cost of \$668,369 in 2003, resulting in a loss of \$193,060.

BUSINESS SEGMENTS

Pending Acquisition in 2004

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

Windsor - ESL Education	\$280,723
Dawa - Chinese Language news	\$194,586

The cost of revenue in each segment was:

Windsor	\$134,340
Dawa	\$72,279

Edgar Filing: XIN NET CORP - Form 10KSB

The gross profit from each of the business segments was:

Windsor	\$146,383
Dawa	\$122,307

	\$268,690

Note: The Registrant owns 51% of the equity in each of Windsor and Dawa. While revenues and costs of revenues are consolidated for reporting purposes, a 49% minority interest in the two companies exists, which, in effect, reduces the allocable gross profit by 49% or \$131,658.

14

Operating Expenses. The Company incurred operating expenses of \$461,750 in 2003 compared to operating expenses of \$191,269 in 2002 due to the acquisition of the two subsidiaries.

Loss from continuing operations. Loss from continuing operations for 2003 was \$197,943 in contrast to the 2002 operating loss of \$653,744. A significant contributor to the decrease in loss from continuing operations is we treat the investment in The Link Group as equity. The loss in 2002 from The Link Group, Inc. was U\$480,700.

Loss from discontinued operations. Loss from discontinued operations in 2003 was \$116,334 representing the results of the internet related services operations in China pending shareholder approval.

Net Loss. The net loss in 2003 was \$ 314,277 compared to the net loss in 2002 of \$ 907,779. The per share loss for 2003 was \$0.01, and the per share loss for 2002 was \$0.04.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of \$3,303,677 at year-end 2003.

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.

At the fiscal year-end it had \$5,866,214 in current assets and current liabilities of \$5,870,451.

The cash capital at the end of the period of \$3,303,677 will be used to fund continuing operations. The sale of the ChinaDNS assets has provided more than US\$2 million in working capital.

Net cash flows used in operating activities increased to \$2,253,318 in 2003 from \$(101,446) in 2002 mainly from the sale of the ChinaDNS business which brings in \$2,416,200. The account receivable increased to \$95,465 in 2003, as compared to nil in 2002 is because of the increased advertisement revenue from Dawa and the collection of this advertisement revenue hasn't been done on time.

Net cash flows used in investing activities in 2003 was \$(5,525), representing there was no major investment made in 2003.

Net cash flows provided by financing activities for 2003 was nil.

Edgar Filing: XIN NET CORP - Form 10KSB

The Company has revenues from its subsidiaries: Windsor Education Academy ("Windsor") and Dawa Business News Group Inc. ("Dawa") at this time. However capital from private placements, borrowing against assets and/or from warrants being exercised by warrant holders, is required to fund future operations.

On March 15, 2001 the Company amended both the Series "A" and Series "B" warrants as follows:

- the exercise price of the Series "A" warrants is adjusted to \$1.00 each and their term is extended to the earlier of (a) March 31, 2003 and (b) the 90th day after the day on which the weighted average trading price of Xin Net Corp.'s shares exceeds \$1.25 per share for ten consecutive days;
- upon exercise of one Series "A" warrant at \$1.00, the holder will receive one Xin Net Corp. common share and one Series "B" warrant;
- the exercise price of the Series "B" warrants is adjusted to \$1.50 each and their term is extended to the earlier of (a) March 31, 2004 and (b) one year after the 90th day occurrence described above.

15

On April 1, 2003 the Company amended both the Series "A" and Series "B" warrants as follows:

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

Outstanding warrants are not included in the "Liquidity and Capital Resources" and they are not valued in the financial statements.

The Company spent U\$600,300 for Link Group in 2001, spent U\$129,450 for Windsor in 2002. We have a share swap in 2003 to acquire 51% of Dawa, and reduce our interests in Windsor from 100% to 51%.

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. But it will 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

Edgar Filing: XIN NET CORP - Form 10KSB

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 SMS services in China, it may use all of its available capital without generating a profit.

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

Although the Company is unaware of any major seasonal aspect that would have a material effect on the financial condition or results of operation, the first quarter of each fiscal year is always a financial concern. It is not uncommon for companies to shut down their operation or operate on a skeletal crew during the Chinese New Year holiday.

16

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:

For the Education Services side, we have operated for over a year now, the competition is very fierce in the market. The Canadian government has tighten its budget on English training for new immigrants, which leads to reduced government funding for Windsor, this will have negative effects to the revenue of Windsor Education Academy. Canadian government also adopts more strict 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 the Dawa News Business Group Services side, the Company commenced operations in 2003 and based on the industry research available, there is fierce competition in the market. As more competitors come up in the market, competition on advertisement price, which is the main revenue stream for the News Services, become unfavorable to the Company. There is no assurance that the News business will continue to be profitable. According to the agreement signed between the Company and Dawa News Press, the Company has the right to reverse the agreement by disposing its interest in the News business, in exchange for regaining 49% interest in the Education business.

Recent Accounting Pronouncements:

The FASB issued the following pronouncements, none of which are expected to have a significant affect on the financial statements:

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to record liabilities for costs associated with exit or disposal activities to be recognized only when the liability is incurred instead of at the date of commitment to an exit or disposal activity. Adoption of this standard is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard will not have a material impact on the

Edgar Filing: XIN NET CORP - Form 10KSB

Company's financial statements.

17

In October 2002, the FASB issued SFAS No. 147 - "Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9," which applies to the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS No. 147 removes the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangible assets. This statement is effective for acquisitions for which the date of acquisition is on or after October 1, 2002, and is not applicable to the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, amending FASB No. 123, and "Accounting for Stock-Based Compensation". This statement amends Statement No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. The Company will adopt the disclosure provisions and the amendment to APB No. 28 are effective for interim periods beginning after December 15, 2002.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables". EITF No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and rights to use assets. The provisions of EITF No. 00-21 will apply to revenue arrangements entered into in the fiscal periods beginning after June 15, 2003. The Company is currently evaluating the impact EITF No. 00-21 will have on its financial position and results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN46 is effective for all new interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN46 must be applied for the first interim or annual period beginning after June 15, 2003. Management is currently evaluating the effect that the adoption of FIN46 will have on its results of operations and financial condition. Adequate disclosure has been made for all off balance sheet arrangements that it is reasonably possible to consolidate under FIN46.

18

The American Institute of Certified Public Accountants has issued an exposure

Edgar Filing: XIN NET CORP - Form 10KSB

draft SOP "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment ("PP&E")". This proposed SOP applies to all non-government entities that acquire, construct or replace tangible property, plant and equipment including lessors and lessees. A significant element of the SOP requires that entities use component accounting retroactively for all PP&E assets to the extent future component replacement will be capitalized. At adoption, entities would have to option to apply component accounting retroactively for all PP&E assets, to the extent applicable, or to apply component accounting as an entity incurs capitalizable costs that replace all or a portion of PP&E. The Company cannot evaluate the ultimate impact of this exposure draft until it becomes final.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included as a separate exhibit to this report. Please see pages F-1 through F-19.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

The management of the company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of a date within 90 days prior to the filing date of the report (evaluation date) and have concluded that the disclosure controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

There were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation of such, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS AND SIGNIFICANT MEMBERS OF MANAGEMENT

(a) The following table furnishes the information concerning Company directors and officers as of the date of this report. The directors of the Registrant are elected every year and serve until their successors are elected and qualify.

NAME	AGE	TITLE	TERM
Xiao-qing Du	33	President and Director	Annual
Ernest Cheung	53	Director and Secretary	Annual
Maurice Tsakok	52	Director	Annual
Xin Wei	34	President of Xin Hai Technology Development Ltd. (The joint venture partner in China)	Annual

Edgar Filing: XIN NET CORP - Form 10KSB

The following table sets forth the portion of their time the directors devote to the Company:

Ernest Cheung	20%	Angela Du	100%
Maurice Tsakok	20%		

The term of office for each director is one (1) year, or until his/her successor is elected at the Company annual meeting and is qualified. The term of office for each of the officers is at the pleasure of the Board of Directors.

19

(b) Identification of Certain Significant Employees.

Strategic matters and critical decisions are handled by Company directors and executive officers: Xiao-qing Du, Ernest Cheung and Maurice Tsakok. Day-to-day management is delegated to Xiao-qing (Angela) Du partly in China and partly in Canada and Xin Wei in China. Du and Wei are employees of the wholly-owned subsidiary, InforNet Investment Corp. Xin Wei occupies the position of President of Xin Hai Technology Development, Ltd. and is also a director of the Xin Net Telecom Corp. Ltd. (formerly Placer) joint venture. His time is split approximately 60% Xin Hai (operations) and 40% Xin Net Telecom Corp. Ltd. (strategies, planning, business development).

(c) Family Relationships. Xiao-qing Du and Xin Wei are husband and wife.

(d) Business Experience.

The following is a brief account of the business experience during the past five years of each of the Company directors and executive officers, including principal occupations and employment during that period and the name and principal business of any corporation or other organization in which such occupation and employment were carried on.

XIAO-QING (ANGELA) DU, President of subsidiary InforNet Investment Corp. and Director, age 33, was President and Director of our company from 1996 to April 1999. She received a Bachelor of Science in International Finance in 1992 from East China Normal University. She received a Master of Science in Finance and Management Science in 1996 from the University of Saskatchewan Canada. She has been Business Manager of China Machinery & Equipment I/E Corp. (CMEC) from 1992 to 1994. She is now President of InforNet Investment CORP., the Company's wholly owned subsidiary in Canada, and now is president and director of the Company.

ERNEST CHEUNG, Secretary and Director, age 53, has been Secretary of the company since May 1998. He received a B.A. in Math in 1973 from University of Waterloo Ontario. He received an MBA in Finance and Marketing from Queen's University, Ontario in 1975. From 1991 to 1993 he was Vice President of Midland Walwyn Capital, Inc. of Toronto, Canada, now known as Merrill Lynch Canada. From 1992 until 1995 he served as Vice President and Director of Tele Pacific International Communications Corp. He has also served as President for Richco Investors, Inc. since 1995. He has been a director of the Company since 1996. He is currently a Director of Agro International Holdings, Inc. since 1997, Spur Ventures, Inc. since 1997, Richco Investors, Inc. since 1995 and Drucker Industries, Inc. since 1997. In 2000, he became President and a Director of China NetTV Holdings, Inc. In 2002, he became a Director of The Link Group, Inc. (Formerly World Envirotech, Inc.).

Edgar Filing: XIN NET CORP - Form 10KSB

20

Mr. Cheung is an officer or director in the following public companies:

Name of Issuer -----	Symbol -----	Market -----	Position -----	From ----	To --	Business -----
Agro International Holdings Inc.	AOH	CDNX	President	Jan-97	Current	Agriculture
China NetTV Holdings Inc.*	CTVH	OTCBB	President	May-00	2003	Set-Top Box
Drucker, Inc.*	DKIN	OTCBB	Secretary	Apr-97	2003	Oil & Gas
ITI World Investment Group Inc.	IWI.A	CDNX		Jun-98	Current	Beverage Di
NetNation Communications Inc.	NNCI	Nasdaq	Small Cap.	Apr-99	Current	Domain Name Registratio
Richco Investors Inc.	YRU.A	CDNX	President	May-95	Current	Financial, Capital Mar
Spur Ventures Inc.	SVU	CDNX		Mar-97	Current	Fertilizer
The Link Group Inc.*	LNKG	OTCBB	Secretary	Dec-01	Current	Internet Su
Xin Net Corp.*	XNET	OTCBB	Secretary	Mar-97	Current	China Inter

* Reporting Companies in US

He has held a Canadian Securities license but is currently inactive. He has been a Director and Secretary of Registrant since January 1997.

MAURICE TSAKOK, Director (since 1997), age 52, was employed from 1994 to 1996 by Sagit Mutual Funds, a mutual fund company, who as a vice-president was responsible for computer operations and research on global technology companies. From 1997 to present, he acted as a consultant on the high-tech industry and provides technical analysis on high-tech companies. He holds a Mechanical Engineering degree (1974 University of Minnesota) as well as an MBA specializing in Management Information Systems (MIS) (1976 Hofstra University). In 2000, he became a Director of China NetTV Holdings, Inc. In 2002, he became a Director of The Link Group, Inc. (formerly World Envirotech, Inc.).

(e) Committees of the Board of Directors

The Board of Directors does not have a nominating committee. Therefore, the selection of persons or election to the Board of Directors was neither independently made nor negotiated at arm's length.

Compensation Committee. The Company established a Compensation Committee on October 5, 1999, which consists of two directors, Angela Du and Ernest Cheung. The Compensation Committee will be responsible for reviewing general policy matters relating to compensation and benefits of directors and officers, determining the total compensation of its officers and directors.

21

Audit Committee. On August 31, 1999, the Board of Directors established an Audit Committee, which consists of two directors, Angela Du and Ernest Cheung. The Audit Committee will be charged with recommending the engagement of independent accountants to audit Company financial statements, discussing the scope and results of the audit with the independent accountants, reviewing the

Edgar Filing: XIN NET CORP - Form 10KSB

functions of Company management and independent accountants pertaining to its financial statements and performing other related duties and functions as are deemed appropriate by the Audit Committee and the Board of Directors.

Qualified Financial Expert. The Company has not hired a qualified financial expert and will only do so when operations warrant the expenditure for such experts.

(f) Resolution of conflicts of interest

As mentioned earlier, some officers and directors will not devote more than a portion of their time to the affairs of the Company. There will be occasions when the time requirements of Company business conflict with the demands of their other business and investment activities. Such conflict may require that the Company attempt to employ additional personnel. There is no assurance that the services of such persons will be available or that they can be obtained upon terms favorable to the Company.

There is no procedure in place which would allow Company officers or directors to resolve potential conflicts in an arms-length fashion. Accordingly, they will be required to use their discretion to resolve them in a manner which they consider appropriate.

Code of Ethics. The Company has not adopted a Code of Ethics.

ITEM 10. EXECUTIVE COMPENSATION AND COMPLIANCE WITH SECTION 16(a)

(a) Officers' Compensation

Compensation paid by the Company for all services provided up to December 31, 2003, (1) to each of the executive officers and (2) to all officers as a group.

SUMMARY COMPENSATION TABLE OF EXECUTIVES

Name and Principal /Other(\$) Position	Year Awards	Cash Compensation			Security Grants			Long Term Compensation/	LTIP Payment
		Salary	Bonus	Annual Compensation Options	Restricted Stock	Securities Underlying SARs (#) (SHARES)			
Xiao-qing Du	2000	30,000	0	0	0	0	0	0	
President of	2001	32,084	0	0	0	0	0	0	
Infornet	2002	4,809	0	0	0	0	0	0	
Subsidiary	2003	(CDN) 0	0	0	0	0	0	0	
Ernest Cheung	2000	0	0	24,000	0	0	0	0	
Secretary	2001	0	0	24,000	0	0	0	0	
	2002	0	0	24,000	0	0	0	0	
	2003	(CDN) 0	0	0	0	0	0	0	
Officers as	2000	30,000	0	24,000	0	0	0	0	
A Group	2001	32,084	0	24,000	0	0	0	0	
	2002	4,809	0	24,000	0	0	0	0	

Edgar Filing: XIN NET CORP - Form 10KSB

2003 (CDN) 0 0 (CDN) 0 0 0 0 0

22

(1) Ernest Cheung received 50,000 options to buy 50,000 shares at \$1.30 per share, plus Richco Investors, Inc. of which Mr. Cheung is an officer and director, and Mr. Tsakok is an officer and director, received 385,000 units for its services in structuring the private placement. The "unit" is defined in Item 6 under "Liquidity and Capital Resources".

(2) 262,000 options to buy 262,000 shares at \$1.30 per share.

(3) See Note (g) under "Stock purchase options" following Summary Compensation Tables of Directors.

There have been no Option/SAR grants or exercises in the last fiscal year reportable under Reg. S-B, 402(c) or (d).

(b) Directors' Compensation

Directors who are also officers of Xin Net Corp. receive no cash compensation for services as a director. However, the directors will be reimbursed for out-of-pocket expenses incurred in connection with attendance at board and committee meetings. The Company has granted options to directors under its Stock Incentive Plan subsequently adopted.

23

SUMMARY COMPENSATION TABLE OF DIRECTORS
(To December 31, 2003)

Name and Principal Position	Year	Cash Compensation			Number of Shares (#)	Security Grants		LTIP Payments	AL
		Annual retainer Fees (\$)	Meeting Fees (\$)	Consulting Fees/Other Fees (\$)		Securities Underlying Options/SARs (#) (SHARES)	Co		
Xiao-qing Du, Director	2000	0	0	0	0	0	0		
	2001	0	0	0	0	0	0		
	2002	0	0	0	0	0	0		
	2003	0	0	0	0	0	0		
Ernest Cheung, Director	2000	0	0	0	0	0	0		
	2001	0	0	0	0	0	0		
	2002	0	0	0	0	0	0		
	2003	0	0	0	0	0	0		
Maurice Tsakok Director	2000	0	0	24,000 CDN	0	0	0		
	2001	0	0	24,000 CDN	0	0	0		
	2002	0	0	24,000 CDN	0	0	0		
	2003	0	0	0	0	0	0		

Edgar Filing: XIN NET CORP - Form 10KSB

Directors as a	2000	0	0	53,500 CDN	0	0	0
group	2001	0	0	84,000 CDN	0	0	0
	2002	0	0	54,000 CDN	0	0	0
	2003	0	0	0	0	0	0

24

There have been no Option/SAR grants or exercises in the last fiscal year reportable under Reg. S-B, 402(c) or (d).

Termination of Employment and Change of Control Arrangements:

None.

Stock purchase options:

On February 26, 1999, stock options for a total of 480,000 shares at \$.40 per share were granted to officers and employees (or persons who became officers) that had contributed to the success of the company in the past: Marc Hung (150,000 shares) and Xin Wei (330,000 shares) (Note: Mr. Wei is not an officer of Xin Net Corp., but an employee and officer of its subsidiary, InforNet Investment Corp.) All share options were exercised as of April 6, 1999.

On November 12, 1999 the Company granted 2,136,000 options to purchase shares at \$1.30 per share to entities/persons who contributed to the successful results achieved by the Company in 1999, as follows:

- (a) 262,000 options to Gemsco Management Ltd., beneficially Maurice Tsakok, for designing and implementing the Company's corporate website, advising on technological matters, researching the technology sector and for services as a director;
- (b) 262,000 options to Farmind Link Corp. for their role as advisor on strategic issues, technology market trends, and financial and capital market issues;
- (c) 262,000 options to Sinhoy Management Ltd., beneficially Marc Hung, for their contributions to the general management of our company, investor relations, technological matters and for services as a director;
- (d) 212,000 options to Lancaster Pacific Investment, Ltd. for their contributions in the areas of regulatory matters, Chinese market conditions and strategies aimed at penetrating that market;
- (e) 50,000 options to Ernest Cheung for services rendered as secretary and director;
- (f) 20,000 options to Yonderiche International Consultants Ltd. for services rendered in matters regarding Chinese government policies and regulations; and
- (g) 1,068,000 options to Weststar Holdings Limited (owned beneficially by Xiao-qing Du, a director and president of InforNet Investment Corp., and Xin Wei, a director and secretary of InforNet Investment Corp. and President of Xin Hai) and employees of Xin Hai Technology Development Ltd., as a group, for the successful continued development of the business in China and achieving excellent operational results during the year. The breakdown of the 1,068,000 options is to be determined at a later date.

The average closing price of the Company's stock for the five trading days ended on November 12, 1999 was \$1.28 per share. The closing price for the

Edgar Filing: XIN NET CORP - Form 10KSB

Company's stock on November 12, 1999 was \$1.187 per share.

25

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors, and greater than ten percent stockholders are required by regulation to furnish to the Company copies of all Section 16(s) forms they file.

No person failed to file forms on a timely basis during the past fiscal year as required under Section 16(a) based upon information available to the Company.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Section 16(a) of the Securities Exchange Act of 1934, as amended (The "Exchange Act"), requires Company officers and directors, and persons who own more than 10% of a registered class of the its equity securities, to file reports of ownership and changes in ownership of Company equity securities with the Securities and Exchange Commission and NASDAQ. Officers, directors and greater-than 10% shareholders are required by the Securities and Exchange Commission regulation to furnish to the Company with copies of all Section 16(a) that they file.

(a) Beneficial owners of five percent (5%) or greater, of Company common stock: The following sets forth information with respect to ownership by holders of more than five percent (5%) of its common stock known by the Company based upon 41,360,010 shares outstanding at December 31, 2003, and in the event of exercise of all options for our stock.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Interest	Percent of Class
Common Stock	Xiao-qing Du Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	2,760,000 (2)	6.7%
Common Stock	Richco Investors, Inc. Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	5,611,500 (1) (3) (4) (7) (8)	13.5%
Common Stock	Ernest Cheung Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	5,349,500 (1) (3) (6) (7) (8)	12.9%
Common Stock	Maurice Tsakok Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	4,991,500 (1) (3) (5) (8)	12.0%

26

Edgar Filing: XIN NET CORP - Form 10KSB

(b) The following sets forth information with respect to the Company common stock beneficially owned by each Officer and Director, and by all Directors and Officers as a group, at December 31, 2003, and in the event of exercise of all options for our stock.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Interest	Percent of Class
Common Stock	Xiao-qing Du (Director) Ste. 830-789 West Pender St. Vancouver, B.C. V6C 1H2	2,760,000 (2)	6.7%
Common Stock	Ernest Cheung (Secretary & Director) (Including Richco Investors above)	5,611,500 (1) (3) (4) (7) (8)	13.5%
Common Stock	Maurice Tsakok (Director) (Including Richco Investors above)	5,611,500 (1) (3) (5) (8)	13.5%
Total for officers and directors as a group		8,911,500	33.7

(1) Richco Investors, Inc., owns 2,559,500 shares. Messrs. Cheung and Tsakok are officers, directors and beneficial owners of Richco Investors Inc. For purposes of this table, the shares owned by Richco are deemed owned by Mr. Cheung and Mr. Tsakok, individually.

(2) As an officer Ms. Du may participate in the company stock option plan and receive options to purchase shares, but the amount is indeterminate at this time, since options are awarded by the Award Committee.

(3) Richco Investors has 1,085,000 "A" warrants to purchase shares of common stock and has 1,085,000 "B" warrants to purchase shares of common stock *.

(4) Ernest Cheung has 50,000 options to purchase shares at \$1.30.

(5) Maurice Tsakok has 262,000 options to purchase shares at \$1.30.

(6) Ernest Cheung is President of Development Fund II of Nova Scotia, Inc. which owns 190,000 common shares and 190,000 "A" warrants and 190,000 "B" warrants.

(7) Includes all shares of Richco Investors, Inc., Ernest Cheung, Maurice Tsakok, and Development Fund II of Nova Scotia since there is common control.

27

(8) Assumes exercise of all warrants and options within 60 days pursuant to Rule 13(d)3(d) (i).

*If all "A" warrants for units are exercised. **If all "B" warrants for shares are exercised.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Equity Investment - The Company's equity investment is with a company (The Link Group, Inc.) that is under common control with this company.

Edgar Filing: XIN NET CORP - Form 10KSB

Options - Of the 2,136,000 stock options outstanding as of December 31, 2003, 1,642,000 options are held by current officers and directors of the Company and 262,000 options are held by the Company's former president, who resigned in April of 2003.

Warrants - There are 1,275,000 "A" and "B" warrants to purchase shares of common stock held by two different entities whose director is the same as this Company. The Company's former President has 80,000 "A" and "B" warrants to purchase shares of common stock, and a family member of the Company's former President has 60,000 "A" and "B" warrants to purchase common stock. All of the warrants are outstanding as of December 31, 2003.

Advances to Joint Venture - The Company has made loans to the joint venture during the periods presented. These loans bear no interest and are payable on demand. Total advances to the joint venture as of December 31, 2003 and 2002 were \$3,084,544 and \$3,152,184, respectively.

28

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

- 10.11 Share Purchase Agreement (Incorporated by reference)
Previously filed 8K 12/24/01
- 10.1 Investment Banking Agreement (Incorporated by reference)
Previously filed 8K 11/28/01
- 10.1 Share Exchange Agreement (Incorporated by reference)
Previously filed 8K 10/03/01
- 3.2 Amended Bylaws (Incorporated by reference)
Previously filed 8K 8/15/01
- 10.1 Letter of Intent (Incorporated by reference)
Previously filed 8K 8/03/01
- 10.1 Assets Transfer Agreement (Incorporated by reference)
Previously filed 8K 7/12/01
- 31.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

- 8-K filed 1-23-03
- 8-K filed 4-4-03
- 8-K filed 7-29-03

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

General. Clancy & Co., PLLC. ("C&C") is the Company's principal auditing accountant firm. The Company's Board of Directors has considered whether the provisions of audit services is compatible with maintaining C&C's

Edgar Filing: XIN NET CORP - Form 10KSB

independence.

Audit Fees. C&C billed the Company for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended December 31, 2002 and quarterly review \$28,850. C&C billed the Company \$31,230 for the 2003 audit and 2003 quarterly reviews.

There were no audit related fees in 2002 or 2003. C&C billed the Company \$2,050 for tax fees or other fees in 2002. There were no tax fees in 2003.

The Company's Board acts as the audit committee and had no "pre-approval policies and procedures" in effect for the auditors' engagement for the audit year 2002 and 2003.

All audit work was performed by the auditors' full time employees.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

DATE: April 15, 2004

XIN NET CORP.

by: /s/ Xiao-qing Du

Xiao-qing Du, President

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Xiao-qing Du President, Director and April 15, 2004

Xiao-qing Du Principal Accounting Officer

/s/ Ernest Cheung Secretary, Director and April 15, 2004

Ernest Cheung Principal Financial Officer

/s/ Maurice Tsakok Director April 15, 2004

Maurice Tsakok

Edgar Filing: XIN NET CORP - Form 10KSB

Independent Auditors' Report.....	F-
Consolidated Balance Sheets.....	F-
Consolidated Statements of Operations.....	F-
Consolidated Statements of Changes in Stockholders' Equity.....	F-
Consolidated Statements of Cash Flows.....	F-
Notes to the Consolidated Financial Statements.....	F-6 -

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Xin Net Corp.

We have audited the consolidated balance sheets of Xin Net Corp. (a Florida corporation) and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Xin Net Corp. and Subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Clancy and Co., P.L.L.C.
Clancy and Co., P.L.L.C.
Phoenix, Arizona

March 12, 2004

Edgar Filing: XIN NET CORP - Form 10KSB

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

Stated in U.S. dollars

2003

ASSETS

Current Assets

Cash and short-term deposits	\$	3,303,677	\$
Investments (Note 4)		-	
Accounts receivable, net of allowance of \$58,678		95,465	
Prepaid expenses and other current assets		31,587	
Assets to be disposed of (Note 9)		2,435,485	
Net assets of discontinued operations (Note 10)		-	

Total Current Assets 5,866,214

Investment - at equity (Note 6) 253,524

Property and Equipment, Net (Note 5) 13,438

Goodwill (Note 7, 8) 187,436

Total Assets \$ 6,320,612 \$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable and other accrued liabilities	\$	225,040	\$
Deferred revenue		28,354	
Security deposit from Sino-i.com Ltd. (Note 9)		2,416,200	
Liabilities to be disposed of (Note 9)		3,200,857	

Total Current Liabilities 5,870,451

Minority Interest 38,147

Stockholders' Equity

Common stock : \$0.001 par value, authorized: 50,000,000

Edgar Filing: XIN NET CORP - Form 10KSB

Issued and outstanding: 41,360,010 shares	41,360
Additional paid-in capital	8,194,045
Accumulated deficit	(7,659,628)
Accumulated other comprehensive loss	(163,763)
Total Stockholders' Equity	412,014

Total Liabilities and Stockholders' Deficiency	\$ 6,320,612 \$
	=====

The accompanying notes are an integral part of these financial statements.

F-2

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Stated in U.S. dollars	2003

Revenue	
Tuition fee	\$ 280,723
Commercial press	194,586

	475,309
Cost of revenue	
Tuition fee	134,340
Commercial press	72,279

	206,619

Gross profit	268,690
Expenses	
Depreciation	8,140
Consulting and professional	118,338
General and administrative	104,188
Rent	74,196
Salaries, wages and benefits	156,888

	461,750

Operating Loss	(193,060)
Other Income (Expense)	

Edgar Filing: XIN NET CORP - Form 10KSB

Interest income	15,066
Other income	7,903
Bad debt recovery	12,178
Equity loss in undistributed earnings of investee company (Note 6)	(66,076)
Total Other Income (Expense)	(30,929)
Loss before Minority Interest, Taxes and Discontinued Operations	(223,989)
Minority Interest	26,046
Provision for Income Taxes	-
Loss from Continuing Operations	(197,943)
Discontinued Operations	
Loss from Assets Held for Sale (Note 9)	(322,987)
Gain on disposal of ISP Operation (Note 10)	206,653
Loss from discontinued operations	(116,334)
Net Loss Available to Common Stockholders	\$ (314,277)
Loss per share available to common stockholders:	
Loss from continuing operations	\$ (0.01)
Loss from discontinued operations	(0.00)
Total basic and diluted	\$ (0.01)
Basic and diluted weighted average common shares outstanding:	41,360,010

The accompanying notes are an integral part of these financial statements.

F-3

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid-In Capital	Accumulated Deficit	Accumulated Income
Balance, December 31, 2001	21,360,010	\$ 21,360	\$ 7,214,045	\$ (6,437,572)	
Common stock issued for cash	20,000,000	20,000	980,000		

Edgar Filing: XIN NET CORP - Form 10KSB

Components of comprehensive loss:
 Net loss (907,779)
 Translation adjustments

Total comprehensive loss

Balance, December 31, 2002 41,360,010 41,360 8,194,045 (7,345,351)

Components of comprehensive loss:
 Net loss (314,277)
 Translation adjustments

Total comprehensive loss

Balance, December 31, 2003 41,360,010 \$ 41,360 \$ 8,194,045 \$ (7,659,628) \$

The accompanying notes are an integral part of these financial statements.

F-4

XIN NET CORP. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Stated in U.S. dollars

2003

2

Cash flows from operating activities		
Net loss	\$	(314,277)
Less: loss from assets held for sale		322,987
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation		8,140
Translation adjustments		(15,104)
Minority interest		(26,046)
Gain on disposal of ISP operations		(206,653)
Equity loss of investee company		66,076
Changes in assets and liabilities		
(Increase) decrease in accounts receivable		(95,465)
(Increase) decrease in prepaid expenses and other current assets		(9,165)
Increase in accounts payable		115,996
Increase in deferred revenue		(9,371)
Increase in security deposits		2,416,200
Net cash flows used in operating activities		2,253,318
Cash flows from investing activities		
Purchases of property and equipment		(10,661)
Reduction (purchase) in investment		1,266
Reduction (increase) in loan to ProtectServe Pacific Ltd.		-
Investment in The Link Group, Inc.		-
Cash acquired in Windsor subsidiary acquisition		-

Edgar Filing: XIN NET CORP - Form 10KSB

Cash acquired in Dawa subsidiary acquisition	3,870	
Cash paid for purchase of Windsor subsidiary	-	

Net cash flows used in investing activities	(5,525)	
Cash flows from financing activities		
Principal payments on capital lease obligations	-	
Proceeds from the issuance of common stock	-	

Net cash flows provided by financing activities	-	

Net cash provided by continuing operations	2,247,793	
Net cash provided by (used in) assets held for sale	98,751	

Increase (decrease) in cash and cash equivalents	2,346,544	
Cash and cash equivalents - beginning of year	957,133	

Cash and cash equivalents - end of year	\$ 3,303,677	\$
		=====
Cash paid for:		
Interest	\$ 6,565	\$
		=====
Income taxes	\$ 10,978	\$
		=====

The accompanying notes are an integral part of these financial statements.

F-5

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Xin Net Corp. ("the Company") was incorporated under the laws of the State of Florida on September 12, 1996 with an authorized capital of 50,000,000 shares of \$0.001 par value common stock. The Company's principal business activities include providing education and training courses for foreign students and commercial publication of a weekly Chinese community newspaper and a monthly magazine featuring education and employment in Vancouver's Chinese community. The Company promotes its affiliated educational products through its commercial publications activities.

Prior to June 2003, the Company provided internet-related services, including domain name registration, web-hosting and other value-added services, such as e-commerce and advertising in several major cities in the Peoples Republic of China ("PRC"). Due to the lack of funding and high competition in the market, the Company signed an agreement to sell its internet-related services in the PRC (see Note 9 for details).

Summary of Significant Accounting Policies

Edgar Filing: XIN NET CORP - Form 10KSB

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. The Company also consolidates the assets, liabilities, revenues and expenses of the joint venture because it has control over its operating and financing decisions. All significant inter-company transactions and balances have been eliminated in consolidation.

Accounting method - The Company's financial statements are prepared using the accrual method of accounting.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Concentration of credit risk - The Company maintains Renminbi cash balances in banks of the People's Republic of China and U.S. Dollar cash balances in Canadian and Hong Kong banks that are not insured. Revenues were derived in geographic locations outside the United States. The ELSA program of Windsor accounts for 76% of the total tuition fees and 45% of the total revenue of the Company.

Cash and cash equivalents - Cash equivalents consists of time deposits with original maturities of three months or less.

Investments - The Company determines the appropriate classification of marketable debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. All marketable debt securities are classified as held-to-maturity and are carried at amortized cost, which approximates fair value.

F-6

Accounts receivable and allowance for doubtful accounts - Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate realization of these receivables.

Property and equipment - Property and equipment, stated at cost, is depreciated under the straight-line method over their estimated useful lives, ranging from three to seven years.

Goodwill - Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets (tangible and intangible) acquired. Goodwill acquired has to be evaluated for impairment at the beginning of year 2002 and on an annual basis going forward according to Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets". The standard requires a two-step process to be performed to analyze whether or not goodwill has been impaired. Step one requires that the fair value to be compared to book value. If the fair value is higher than the book value, no impairment is indicated and there is no need to perform the second step of the process. If the fair value is lower than the book value, step two must be evaluated. Step two requires a hypothetical purchase price allocation analysis to be done to reflect a current book value of goodwill. The current value is

Edgar Filing: XIN NET CORP - Form 10KSB

then compared to the carrying value of goodwill. If the current fair value is lower than the carrying value, an impairment must be recorded. Annually, the goodwill is tested for impairment in the fourth quarter.

Long-lived assets - The Company records impairment losses on long-lived assets used in operation when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Revenue recognition - The Company's revenues for 2003 consisted of revenues from education and training services and the commercial printing. In accordance with S.E.C. Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," the Company recognizes revenue 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 upon shipment of products or when services have been rendered. Revenues derived from education and training are recognized as the services are performed. Revenues derived from commercial printing are recognized when the job is delivered to the customer. Amounts received from customers in advance of revenue recognition are deferred and classified on the balance sheet as "deferred revenue."

The Company's revenues for 2002, which are included in discontinued operations, consisted of revenues from domain name registration services and e-solutions. Revenues derived from domain name registration services are recognized over the period the services are provided. E-solutions revenues are recognized as the services are performed or when the goods are delivered and consisted principally of electronic commerce, software development and developing web-site home pages.

Cost recognition - Cost of revenues includes direct costs to produce products and provide services.

Deferred revenue and deferred cost - Deferred revenue for 2003 primarily of education and training revenue received prior to the services being performed.

Deferred revenue for 2002, which is included as a component of "Liabilities to be disposed of" consists of prepaid domain name registration fees. End users receive certain elements of the Company's revenues over a period of time. As a result, the Company's revenue recognized represents the fair value of these elements over the product's life cycle. Deferred cost for 2002, which is included as a component of "Assets to be disposed of" consists of amounts paid to various registrars for domain name registration fees and are deferred on the same basis as revenue.

Product development costs - In accordance with American Institute of Certified Public Accountant's ("AICPA") Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," computer software costs incurred in the preliminary project stage, such as direct labor and related overhead, and purchased software and computer equipment from third parties, are expensed as incurred. Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," does not materially affect the Company.

F-7

Advertising costs - Advertising costs are expensed as incurred. Total advertising costs charged to operations amounted to \$16,822 for 2003 and \$1,075 for 2002. Total advertising costs included in discontinued operations amounted to \$155,075 for 2003 and \$168,902 for 2002.

Edgar Filing: XIN NET CORP - Form 10KSB

Income taxes - The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, 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.

Foreign currency translations - The assets and liabilities of the Company's foreign operations are generally translated into U.S. dollars at current exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a separate component of stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of an identifiable foreign currency commitment or as a hedge of a foreign currency investment position, are included in the results of operations as incurred.

Fair value of financial instruments - For certain of the Company's financial instruments, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and other accrued liabilities, and deferred revenues, the carrying amounts approximate fair value due to their short maturities.

Business segment information - The Company discloses information about its reportable segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's reportable segments are geographic areas. The accounting policies of the operating segments are the same as those for the Company.

Earnings per share - Basic earnings or loss per share are based on the weighted average number of common shares outstanding. Diluted earnings or loss per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. Basic earnings/loss per share is computed by dividing income/loss (numerator) applicable to common stockholders by the weighted average number of common shares outstanding (denominator) for the period. All earnings or loss per share amounts in the financial statements are basic earnings or loss per share, as defined by SFAS No. 128, "Earnings Per Share." Diluted earnings or loss per share does not differ materially from basic earnings or loss per share for all periods presented. Convertible securities that could potentially dilute basic earnings per share in the future such as options and warrants are not included in the computation of diluted earnings per share because to do so would be antidilutive. All per share and per share information are adjusted retroactively to reflect stock splits and changes in par value.

Stock-based compensation - The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to remain on its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, amending FASB No. 123, and "Accounting for Stock-Based Compensation". This statement amends Statement No. 123 to

Edgar Filing: XIN NET CORP - Form 10KSB

provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. The Company adopts the disclosure provisions and the amendment to APB No. 28 effective for interim periods beginning after December 15, 2002.

F-8

Comprehensive income - The Company includes items of other comprehensive income (loss) by their nature, such as translation adjustments, in a financial statement and displays the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The company discloses total comprehensive income (loss), its components and accumulated balances on its statement of stockholders' equity.

Capital structure - The Company discloses its capital structure in accordance with SFAS No. 129, "Disclosure of Information about Capital Structure," which established standards for disclosing information about an entity's capital structure.

Related party transaction - A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Reclassification - Certain prior period amounts have been reclassified to conform to the current year presentation. These changes had no effect on previously reported results of operations or total stockholders' equity. Recent Accounting Pronouncements - The FASB issued the following pronouncements during 2003, none of which are expected to have a significant affect on the financial statements:

In January 2003, the Financial Accounting Standard Board issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities - An Interpretation of Accounting Research Bulletin (ARB) No. 51". This interpretation addressed the requirements for business enterprises to consolidate related entities in which they are determined to be the primary economic beneficiary as a result of their variable economic interest. The interpretation is intended to provide guidance in judging multiple economic interests in an entity and in determining the primary beneficiary. The interpretation outlines disclosure requirements for variable interest entities in existence prior to January 31, 2003, outlines consolidation requirements for variable interest entities created after January 31, 2003. The company has reviewed its major commercial relationship and its overall economic interests with other companies consisting of related parties, manufacture vendors, loan creditors and other suppliers to determine the extent of its variable economic interest in these parties. The review has not resulted in a determination that the Company would be judged to be the primary economic beneficiary in any material relationships, or that any material entities would be judged to be variable interest entities of the Company.

The American Institute of Certified Public Accountants has issued an exposure draft SOP "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment ("PP&E")". This proposed SOP applies to all non-government

Edgar Filing: XIN NET CORP - Form 10KSB

entities that acquire, construct or replace tangible property, plant and equipment including lessors and lessees. A significant element of the SOP requires that entities use component accounting retroactively for all PP&E assets to the extent future component replacement will be capitalized. At adoption, entities would have to option to apply component accounting retroactively for all PP&E assets, to the extent applicable, or to apply component accounting as an entity incurs capitalizable costs that replace all or a portion of PP&E. The Company cannot evaluate the ultimate impact of this exposure draft until it becomes final.

In April 2003, the FASB issued SFAS No. 149, "Accounting for Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is generally effective for contracts entered into or modified after June 30, 2003, and all provisions should be applied prospectively. This statement does not affect the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the implementation of SFAS No. 150 will have a material impact on the financial condition, results of operations or cash flows.

F-9

NOTE 2 - SUBSIDIARIES

(1) The Company's wholly-owned subsidiaries are as follows:

- a. Infornet Investment Limited (a Hong Kong corporation) ("Infornet HK") is a telecommunication and management network company providing financial resources and expertise in telecommunication projects. This subsidiary was originally incorporated as Micro Express Limited and was acquired at no cost. The name was changed to Infornet Investment Limited on July 18, 1997.
- b. Infornet Investment Corp., (a Canadian corporation) ("Infornet Canada") is engaged in a similar line of business of the Company. The Company issued 5,000,000 shares of common stock to acquire this subsidiary for a total value of \$65, representing organizational costs and filing fees.
- c. Xinbiz (HK) Limited (a Hong Kong corporation) ("Xinbiz Ltd.") and Xinbiz Corp. (a British Virgin Islands corporation) ("Xinbiz Corp."). Both subsidiaries were inactive during 2003 and 2002.
- d. Windsor Education Academy Inc., (a Canadian Corporation) ("Windsor") is engaged in providing English as a secondary language training program to foreign students. (See Note 7)
- e. Dawa Business Group Inc. (a Canadian Corporation) ("Dawa") is engaged in the publication of a weekly Chinese community newspaper and a monthly magazine featuring education and employment in Vancouver's Chinese community. (See Note 8)

NOTE 3 - JOINT VENTURE

Edgar Filing: XIN NET CORP - Form 10KSB

On August 25, 1997, through its wholly-owned subsidiary Infornet HK, under the laws of the PRC, formed an 80% cooperative joint venture called Xinnet Telecom Corp., Ltd. (a PRC corporation) with Xin Hai Technology Development Ltd. (a PRC Corporation) ("Xin Hai") as a 20% partner, for a term of twenty (20) years. Infornet HK is obligated to contribute all of the capital of the joint venture. The initial registered capital was \$525,000 and was subsequently increased by \$1,000,000 by an amendment to the joint venture agreement dated December 15, 1999, for a total registered capital of \$1,525,000. The total registered capital was increased to \$1,750,000 during 2000. Infornet HK has already contributed this figure and no further capital contribution is required. Infornet HK continues to advance loans to the joint venture as necessary to fund the operations of the business.

The joint venture agreement designated distribution of 80% of the profits to Infornet HK and 20% to Xin Hai, until the recoupment of Infornet HK's invested capital. On April 25, 2000, the Company amended the joint venture agreement to reallocate the distribution of profits as 100% to Infornet HK and 0% to Xin Hai, until Infornet HK's total investment in the joint venture has been fully recovered by Infornet HK. On April 13, 2000, the joint venture agreement was amended to give Infornet HK control over the joint venture for another fifteen (15) years after the recovery of its total investment and interest from external financing in the joint venture. Infornet HK has, since inception of the joint venture, and will in the future for fifteen years subsequent to the recovery of total investment and interest from external financing, approve all board of directors of the joint venture company. Due to the life of the joint venture, twenty (20) years, Infornet HK will control the joint venture for substantially all of the joint venture life.

In accordance with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries," the purchase method is used to account for the investment in the joint venture because the joint venture company's board of directors is authorized to make all major decisions for the joint venture and all the directors of the board are approved by the Company. Therefore, until this point, 100% of the profits and losses are consolidated and no minority interest is recorded. Total advances to the joint venture as of December 31, 2003 and 2002 were \$3,084,544 and \$3,152,184, respectively. (See Note 16)

F-10

The Company operates in accordance with the laws and regulations in the PRC, which allow Sino-foreign joint venture companies to construct Internet access networks and to have ownership rights, and rights for return on investment, but disallow joint venture companies to operate such networks. Internet Service Provider ("ISP") licenses are tightly controlled by the Ministry of Information Industry of China and provide a substantial barrier to entry. Therefore, Xin Hai holds the business, including all ISP operating licenses, industrial property rights, and network. The ownership and title to all of the assets comprising the Internet network remain with the Company during the term of the joint venture. Xin Hai is entitled to the custody and control of such assets on behalf of the Company.

In June 2001, the Board of Directors of the Company decided to discontinue the unprofitable ISP services in the PRC and the Company's joint venture partner signed an agreement on June 22, 2001 to sell its ISP operation and related assets to a private company in Beijing, PRC for sales proceeds of \$700,000. The transaction is subject to the approval of shareholders. (See Note 10)

In February 2003, the Board of Directors of the Company decided to sell the unprofitable internet-related services in the PRC to a subsidiary company of

Edgar Filing: XIN NET CORP - Form 10KSB

Sino-i.com Ltd., a company listed on the Hong Kong Stock Exchange, for total consideration of RMB 20 million (approximately US\$2,500,000). The transaction is subject to the approval of shareholders. (See Note 9)

NOTE 4 - MARKETABLE DEBT SECURITIES

All marketable debt securities are classified as held-to-maturity and carried at amortized cost. Their estimated fair values approximated their amortized cost and therefore, there were no significant unrealized gains or losses.

Investments at December 31, 2002, consisted of one Canadian Guarantee Investment Certificates ("GIC") purchased for \$2,000 Canadian Dollars, or \$1,266 U.S. Dollars, with a maturity date of April 14, 2003. Accrued interest receivable at December 31, 2002 was \$14.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2003	2002
	-----	-----
Equipment	\$ 31,160	\$ 20,284
Library	9,554	9,146
Furniture	10,683	8,606
	-----	-----
Total	51,397	38,036
Less accumulated depreciation	37,959	27,130
	-----	-----
	\$ 13,438	\$ 10,906
	=====	=====

F-11

Depreciation charged to operations amounted to \$8,140 for 2003 and \$2,221 for 2002. Depreciation included in discontinued operations amounted to \$125,059 for 2003 and \$267,087 for 2002.

NOTE 6 - INVESTMENT - AT EQUITY

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") representing a 71.87% majority ownership interest and accounted for the acquisition under the purchase method of accounting. The Company accounts for the remaining 28.13% interest in Link as minority interest in the accompanying consolidated financial statements. Link is a development stage company traded on the NASDAQ as an over-the-counter bulletin board company. Goodwill represents the cost in excess of the net assets acquired of Link. (See Note 16)

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. An option

Edgar Filing: XIN NET CORP - Form 10KSB

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. The private placement and option transaction took place with another public company having directors in common.

Link completed a Share Exchange Agreement dated January 21, 2002 and agreed to purchase all of the issued and outstanding shares of Protectserve Pacific Ltd. (a Hong Kong company) ("PSP"). As of December 31, 2001, the Company had advanced \$360,400 to PSP, which was repaid by PSP in January 2002. By an agreement dated January 21, 2002, Link agreed to purchase all of the outstanding shares of PSP through the issuance of 37,500,000 (post-reverse one for four split) common shares. Link had the right to buy back its shares at \$0.001 per share from these individuals if PSP's after tax profit was less than Hong Kong \$9 million dollars ("HKD") for the twelve months ending December 31, 2002. The buy back formula was 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 the consideration of the disposition of its subsidiary company and thereafter the Company's holding in Link correspondingly increased 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 changed 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 increased to 38.6%.

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 December 31, 2003, 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 unaudited financial statements as of September 30, 2003.

F-12

The net investment represents the following at December 31:

	2003	2002
	-----	-----
Original cost of 15,370,675 shares of The Link Group, Inc.	\$ 800,300	\$ 800,000
Equity in undistributed losses of investee company	(546,776)	(480,000)
	-----	-----
	\$ 253,524	\$ 319,000
	=====	=====

NOTE 7 - ACQUISITION OF WINDSOR EDUCATION ACADEMY INC. ("Windsor")

Edgar Filing: XIN NET CORP - Form 10KSB

On December 10, 2002, the Company acquired all the outstanding and issued capital of Windsor for \$129,450 (Canadian \$200,000). Windsor is engaged in providing English as a secondary language program to new immigrants in Canada. Windsor has a "Services Agreement" with the provincial government on providing English Language Service for Adults (ELSA), which is aimed at new immigrants who need improvement in English. The contract is renewed on a yearly basis. The financial assistance provided by the provincial government is based on the estimated cost to be incurred by the Company in that year in relation to the program, but in no event is greater than the amount stated in the agreement. The government funds the agreement in four installments beginning on September 1, 2003, and thereafter on December 1, 2003, April 1, 2004, and July 1, 2004. The Company records the payments received in each quarter as unearned revenue and recognizes revenue over the quarter on a pro-rata basis.

Cash at bank	\$ 26,739
Receivables and prepaid expenses	6,534
Capital assets	9,345
Goodwill	127,124
Accounts payable	(2,567)
Deferred revenue	(37,725)

Total purchase price	\$ 129,450
	=====

The consolidated financial statements for the year ended December 31, 2002, do not include any operations of Windsor as the transactions occurring between the acquisition date and December 31, 2002, were immaterial. The following unaudited pro forma information for 2002 is based on the assumption that the acquisition took place as of the beginning of the period, January 1, 2002:

Net revenues	\$ 403,240
	=====
Net loss	\$ (251,850)
	=====
Basic and diluted loss per share	\$ (0.01)
	=====

NOTE 8 - ACQUISITION OF DAWA BUSINESS GROUP INC. ("DAWA")

On July 3, 2003, the Company acquired 51% of the outstanding and issued shares of Dawa in exchange for 49% of the outstanding and issued shares of Windsor. Dawa's main business is the publication of a weekly Chinese community newspaper and a monthly magazine featuring education and employment in Vancouver's Chinese community. The Company promotes Windsor and its affiliated educational products through the Dawa publications.

Dawa's financial information is incorporated into the consolidation of the Company effective June 30, 2003, as the transactions that occurred between the period June 30, 2003 to July 2, 2003 were immaterial.

Edgar Filing: XIN NET CORP - Form 10KSB

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

Cash at bank	\$ 2,395
Accounts receivables	14,916
Capital assets	2,110
Other assets	133
Goodwill	60,312
Accounts payable and accrued liabilities	(17,575)

Fair value of net assets acquired	\$ 62,291
	=====

The following unaudited pro forma information is based on the assumption that the acquisition took place as of beginning of the period (January 1, 2003), with comparative information for the immediately preceding period as though the acquisition had been completed at the beginning of that period:

	2003	2002
	-----	-----
Net sales	\$ 624,647	\$ 165,241
	=====	=====
Net loss	\$ (14,146)	\$ (704,155)
	=====	=====
Basic and diluted loss per share	\$ (0.00)	\$ (0.03)
	=====	=====

NOTE 9 - DISCONTINUED OPERATIONS - ASSETS HELD FOR SALE

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\$2,500,000), which the Company has received and classified as a security deposit as of December 31, 2003. The transaction is subject to the approval of shareholders. The internet-related business is included in the China segment information in Note 12.

Assets to be disposed of comprise the following at December 31:

	2003	2002
	-----	-----
Cash and cash equivalents	\$ 438,684	\$ 737,516
Other current assets	217,102	187,975
Deferred costs	1,336,879	787,584
Property and equipment	442,820	473,262
	-----	-----
	\$2,435,485	\$ 2,186,337
	=====	=====

Edgar Filing: XIN NET CORP - Form 10KSB

Liabilities to be disposed of comprise the following at December 31:

	2003	2002
	-----	-----
Accounts payable and other accrued liabilities	\$ 781,535	\$ 624,326
Deferred revenue	2,419,322	1,905,670
	-----	-----
	\$3,200,857	\$ 2,529,996
	=====	=====

F-14

Results of operations for the assets held for sale, which are included in discontinued operations, are as follows:

	2003	2002
	-----	-----
Revenues	\$2,372,887	\$ 4,358,581
Operating costs	2,695,874	4,612,616
	-----	-----
Net loss	\$ (322,987)	\$ (254,035)
	=====	=====

Results of operations for 2003 includes the six months ended June 30, 2003, which covers the operating period for 2003 through the date when the entire proceeds were received pursuant to the purchase agreement. The operations and cash flows of the component subsequent to that date have been eliminated from the ongoing operations of the Company and the Company does not have any significant continuing involvement in the operations of the component. There is no resulting income tax effect.

NOTE 10 - GAIN ON DISPOSAL OF ISP OPERATIONS

The Board of Directors of the Company decided to discontinue the unprofitable ISP services in the PRC. The Company's joint venture partner, Xin Hai, signed an agreement on June 22, 2001 to sell its ISP operations and related assets to a private company in Beijing, PRC for sales proceeds of \$700,000. As of December 31, 2003, \$500,000 has been received as a security deposit for the transaction. A provision of \$200,000 has been made against the balance of the sales proceeds as the Company has determined that the purchaser has a liquidity problem and will not be able pay the remaining balance. The agreement was subject to payments being made by the other party at specified dates and to Company shareholders' approval.

Pursuant to Florida law, the Company was required to obtain shareholder approval for the sale of all or substantially all of the assets for a Florida corporation. However, if the assets do not represent all or substantially all of

Edgar Filing: XIN NET CORP - Form 10KSB

the business, the Board can approve it without shareholder approval, which it did by written consent. Because there has been no operations or cash flows consolidated in the financial statements since 2001, the Company has eliminated this component from its ongoing operations and it does not have any significant continuing involvement in the operations of the component.

Gain on the disposal of the ISP services was calculated as follows:

Sales proceeds	\$ 700,000
Add: Deferred revenue	317,321
Less: Capital assets	(320,772)
Accounts receivable	(289,896)
Provision for doubtful debt	(200,000)

	\$ 206,653
	=====

F-15

NOTE 11 - INCOME TAXES

There is no current or deferred tax expense for the years ended December 31, 2003 and 2002, due to the Company's loss position. The Company has fully reserved for any benefits of these losses. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, as appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes. The income tax effect of temporary differences comprising the deferred tax assets and deferred tax liabilities on the accompanying consolidated balance sheets is a result of the following:

	2003	2002
	-----	-----
Deferred tax assets	\$ 624,000	\$ 400,000
Valuation allowance	(624,000)	(400,000)
	-----	-----
Net deferred tax assets	\$ -	\$ -
	=====	=====

The net change in the valuation allowance for 2003 and 2002 was an increase of \$24,000 and \$52,000, respectively, and are principally the result of net operating loss carryforwards. The Company has available net operating loss carryforwards of approximately \$1,200,000 for tax purposes to offset future taxable income, which expire through 2023. All of the net operating loss carryforwards were generated by the parent company. The Company does not file a consolidated tax return because all of its subsidiaries are foreign corporations. Pursuant to the Tax Reform Act of 1986, annual utilization of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% is deemed to occur within any three-year period. A reconciliation between the statutory federal income tax rate and the effective income rate of income tax expense for the years ended December 31, 2003 and 2002 is as follows:

Edgar Filing: XIN NET CORP - Form 10KSB

	2003	2002
	-----	-----
Statutory federal income tax rate	(34.0%)	(34.0%)
Valuation allowance	34.0%	34.0%
	-----	-----
Effective income tax rate	-	-
	=====	=====

F-16

NOTE 12 - 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 expense not allocated to reportable segments.

	China	Canada	Other
	-----	-----	-----
For the year ended December 31, 2003			

Revenue from continuing operations	\$ -	\$ 475,309	\$ -
Operating loss	(2,395)	(112,675)	(7,426)
Total assets	5,675,109	151,474	49,901
Interest income	15,049	12	-
Loss from discontinued operations	(116,334)	-	-
Equity loss in undistributed earnings of investee company	-	-	(48,000)
Investment in equity method investee	-	-	25,000
For the year ended December 31, 2002			

Revenue from continuing operations	-	-	-
Operating loss	\$ (2,604)	\$ (17,378)	\$ (17,378)
Total assets	3,392,617	49,131	47,000
Depreciation	-	260	-
Interest income	42	-	-

Edgar Filing: XIN NET CORP - Form 10KSB

Loss from discontinued operations	(254,035)	-	
Equity loss in undistributed earnings of investee company	-	-	(48)
Investment in equity method investee	-	-	31

F-17

NOTE 13 - STOCK OPTIONS

The Company granted incentive stock options exercisable during 1999 to certain directors, officers, and employees of the Company who contributed services to the Company. (See Note 16) Options outstanding at December 31, 2003 and 2002 were 2,136,000 with an option price of \$1.30. No options were granted, canceled, forfeited, or exercised during 2003 or 2002. The weighted average exercise price of the options outstanding and exercisable is \$1.30 and the weighted average remaining contractual life is 0.9 years. The Company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost for stock options is recognized for stock options awards granted at or above fair market value.

Had compensation expense for the Company's stock-based compensation plans been determined under FAS No. 123, based on the fair market value at the grant dates, the Company's pro forma net loss and pro forma net loss per share would have been reflected as follows at December 31:

	2003	2002
	-----	-----
Net loss		
As reported	\$ (314,277)	\$ (907,779)
Stock-based employee compensation cost, net of tax	(122,758)	(122,758)
	-----	-----
Pro forma	\$ (437,035)	\$ (1,030,537)
	=====	=====
Loss per share		
As reported	\$ (0.01)	\$ (0.04)
	-----	-----
Pro forma	\$ (0.01)	\$ (0.04)
	=====	=====

The fair value of each option grant was \$1.17 and was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumption used for those options granted during 1999: dividend yield of 0%, expected volatility of 217%, risk-free interest rate of 5%, and an expected life of 5 years.

NOTE 14 - WARRANTS

The Company issued 5,500,000 Series A warrants as part of the unit private placement in May 1999. Each Series A warrant entitles the holder to purchase, on or before March 31, 2001, one (1) additional unit at a price of \$2.00 per unit,

Edgar Filing: XIN NET CORP - Form 10KSB

each unit consisting of one (1) common share and one (1) Series B warrant. The Series B warrant entitles the holder to purchase one (1) additional common share of the Company at a price of \$5.00 per share on or before March 31, 2002.

The Company also issued 385,000 Series A warrants as part of the unit private placement in May 1999 to Richco Investors, Inc. for services rendered in structuring and arranging the private placement. Each warrant entitles the holder to purchase, on or before March 31, 2001, one (1) additional unit at a price of \$2.00 per unit, each unit consisting of one (1) common share and one (1) Series B warrant. The Series B warrant entitles the holder to purchase one (1) additional common share of the Company at a price of \$5.00 per share on or before March 31, 2002. The warrants were not valued because the exercise price of the warrants exceeded the fair market value of the common stock at the date of issuance. (See Note 16)

F-18

On September 29, 2000, ten (10) Series A warrants were exercised at a price of \$2.00 per share, or \$20. As of the date of issuance of these financial statements, 5,884,990 Series A warrants are outstanding. On March 15, 2001, the Board of Directors of the Company adjusted the exercise price of the 5,884,990 Series A warrants outstanding to \$1.00 per unit and extended their term to the earlier of March 31, 2003, or the 90th day after the day on which the weighted average trading price of the Company's shares exceeds \$1.25 per share for ten (10) consecutive trading days. Additionally, the exercise price of the Series B warrants was adjusted to \$1.50 each and the term extended to the earlier of March 31, 2004 or one year after the occurrence of the 90th day after the day on which the weighted average trading price of the Company's shares exceeds \$1.25 per share for ten (10) consecutive trading days.

On April 1, 2003, the Company extended its outstanding 5,884,990 million Series "A" Share Purchase Warrants as follows:

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

NOTE 15 - COMMITMENTS

Operating leases - The Company leases office space under various operating leases expiring through May 2005. Total rent expense charged to operations during 2003 and 2002 was \$74,196 and \$7,285, respectively. Future minimum rental commitments are (approximately) as follows: (2004: \$57,000 and 2005: \$9,000)

NOTE 16 - RELATED PARTY TRANSACTIONS

Consulting fees - The Company was charged approximately \$nil and \$71,000 during year 2003 and 2002, respectively, for consulting fees paid to certain individuals who are also officers or directors of the Company.

Edgar Filing: XIN NET CORP - Form 10KSB

Equity investment - The Company's equity investment is with a company that is under common control with this company. (See Note 6)

Options - The Company's former president was granted 262,000 options to purchase shares at \$1.30. The Company's current directors and officers were granted 1,612,000 options to purchase shares at \$1.30. All of the options are outstanding as of December 31, 2003.

Warrants - Richco Investors Inc. has 1,085,000 "A" warrants to purchase shares of common stock and has 1,085,000 "B" warrants to purchase shares of common stock. The Company's former President has 80,000 "A" warrants to purchase shares of common stock and has 80,000 "B" warrants to purchase shares of common stock. Another entity controlled by one of the directors of this Company has 190,000 "A" warrants and 190,000 "B" warrants. All of the warrants are outstanding as of December 31, 2003.

Advances to Joint Venture - The Company has made loans to the joint venture during the periods presented. These loans bear no interest and are payable on demand. Total advances to the joint venture as of December 31, 2003 and 2002 were \$3,084,544 and \$3,152,184, respectively. (See Note 3)

F-19

NOTE 17 - PRIVATE PLACEMENT

The Company completed a private placement of 20,000,000 shares of common stock at \$0.05 per share for net proceeds of \$1,000,000 on October 31, 2002. The transaction was approved by the Board of Directors on October 30, 2002.

NOTE 18 - SUBSEQUENT EVENTS

On February 15, 2004, the Company entered into a definitive agreement to acquire a 51% equity interest from the shareholders of a short message system ("SMS") provider, Beijing Quicknet Telecommunication Corp. Ltd. ("Quicknet"), located in Beijing, China for a price of \$3,060,000 in form of issuing 6,120,000 shares of common stock of the Company at a deemed price of \$0.50 per share. In order to comply with current Chinese law, the Company will acquire 49% immediately upon closing and will retain the right to acquire the 2% as soon as it is able to obtain Government approval or achieve a legal structure (under Chinese law) which allows control of the 2% (thereby aggregating 51%). 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.

F-20