

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

Form 10QSB/A

July 26, 2006

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

FORM 10-QSB/A

Amendment No. 2

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the qua

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the tr

Commission File number 0-26559

**CHINA MOBILITY SOLUTIONS, INC.** (Exact name of small business issuer as specified in its charter)

**N/A** (Former name of registrant)

Florida

330-751560

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

#900 - 789 West Pender Street, Vancouver, B.C., Canada V6C 1H2 (Address of principal execu

(604) 632-9638 (Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the

EXPLANATORY PARAGRAPH

This Amendment No. 2 to the Form 10-QSB of China Mobility Solutions, Inc. for March 31, 2006, is

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PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

The financial statements have been adjusted with all adjustments, which, in the opinion of management,

(e) failure to commercialize its technology or to make sales; (f) rapid and significant

There is no assurance that the Company will be profitable, successfully develop, manage

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**CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**Stated in U.S. dollars**

**March 31, 2006**

**December 31, 2005**

(Unaudited)

(Audited)

**ASSETS**

**Current Assets**

Cash and Cash Equivalents

\$  
5,741,569  
\$  
6,138,609

Accounts receivable

6,835  
5,870

Prepaid Expenses and Other Current Assets

113,131  
235,165

Amount due from related parties

45,721  
33,249

**Total Current Assets**

5,907,256  
6,412,893

**Investment**

1  
1

**Property and Equipment, Net (Note 2)**

5,646  
6,248

**Goodwill**

4,802,520  
4,802,520

**Other assets**

692  
701

**Total Assets**

\$  
10,716,115  
\$  
11,222,363

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current Liabilities**

Accounts Payable and Other Accrued Liabilities

\$  
336,735  
\$  
362,013

Deferred Revenue

2,626,886  
3,053,282

Convertible Debentures (Note 3)

3,350,000  
3,350,000

**Total Current Liabilities**

6,313,621

6,765,295

**Stockholders' Equity**

Common Stock : \$0.001 Par Value

Authorized : 500,000,000 common shares

Issued and Outstanding : 20,011,792 shares (2005: 20,011,792 shares)

20,012

20,012

Additional Paid In Capital

18,442,826

18,442,826

Accumulated Deficit

(13,862,008)

(13,804,409)

Accumulated Other Comprehensive Loss

(198,336)

(201,361)

**Total Stockholders' Equity**

4,402,494

4,457,068

**Total Liabilities and Stockholders' Equity**

\$

10,716,115

\$

11,222,363

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

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**CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

**Three Months Ended**

**Stated in U.S. dollars**

**March 31, 2006**

**March 31, 2005**

**Revenue**

Mobile marketing services

\$  
1,440,917

\$  
1,052,529

Tuition fee

19,027

74,678

1,459,944

1,127,207

**Cost of revenue**

Mobile marketing services

291,833

223,545



Tuition fee

4,632

10,439

296,465

233,984

**Gross profit**

1,163,479

893,223

**Expenses**

Advertising and promotion

199,171

141,320

Consulting and professional

89,979

16,156

Depreciation

611

592

Foreign exchange loss (gain)

(1,310)

3,578

General and administrative

36,274

24,317

Interest expense

54,312

-

Investor relations

87,825

-

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Liquidated damages

201,000

-

Rent

235,913

158,615

Salaries, wages and sub-contract

341,861

300,583

Website development

-

80,000

1,245,636

725,161

**Operating Income (Loss)**

(82,157)

168,062

**Other Income**

Interest income

24,558

17,242

Other income

-

1,984

24,558

19,226

**Income (loss) before minority interest**

(57,599)

187,288

**Minority interest**

-  
(126,547)

**Net Income (Loss) Available to Common Stockholders**

\$ (57,599)

\$60,741

**Earnings (loss) per share attributable to common stockholders:**

Basic and diluted

(0.00)

\$0.00

**Weighted average number of common shares outstanding:**

Basic and diluted

20,011,792

16,024,670

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the three month period ended March 31, 2006 and year ended December 31, 2005

(Unaudited)

**Accumulated**

**Stock**

**Additional**

**Other**

**Common**

**Amount At**

**Paid In**

**Accumulated**

**Comprehensive**

**Comprehensive**

**Stated in U.S. dollars**

**Shares**

**Par Value**

**Capital**

**Deficit**

**Income (Loss)**

**Income (Loss)**

**Total**

Balance, December 31, 2004

15,826,792
\$ 15,827
\$ 8,770,378
\$ (4,640,956)
\$ (183,532)
\$3,961,717

Issuance of common stock for cash on

exercise of stock options on February

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24, 2005 @\$0.30  
495,000  
495  
148,005  
148,500

Issuance of common stock for services

rendered  
600,000  
600  
350,700  
351,300

Issuance of common stock for cash on

exercise of stock options on September

1, 2005 @\$0.40  
500,000  
500  
199,500  
200,000

Issuance of common stock for cash on

exercise of stock options on September

1, 2005 @\$0.35  
2,590,000  
2,590  
903,910  
906,500

Stock-based compensation

126,000  
126,000

Fair value of new Series 'A' warrants issued

3,254,305  
3,254,305

Fair value of new Series 'B' warrants issued

3,637,165  
3,637,165

Intrinsic value of the conversion feature of the

convertible debenture

1,052,863  
1,052,863

Net income (loss) for the year ended

December 31, 2005

(9,163,453)  
(9,163,453)  
(9,163,453)

Foreign currency translation adjustments

(17,829)  
(17,829)  
(17,829)

Total comprehensive income (loss)

\$ (9,181,282)

Balance, December 31, 2005

20,011,792  
\$ 20,012  
\$18,442,826  
\$ (13,804,409)  
\$ (201,361)  
\$4,457,068

Net income (loss) for the three months ended

March 31, 2006  
    (57,599)  
(57,599)  
    (57,599)

Foreign currency translation adjustments  
    3,025  
\$3,025  
3,025

Total comprehensive income (loss)  
    \$(54,574)

Balance, March 31, 2006  
    20,011,792  
    \$20,012  
    \$18,442,826  
    \$ (13,862,008)  
    \$ (198,336)  
    \$4,402,494

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

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**CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

**Three Months Ended**

**Stated in U.S. dollars**

**March 31, 2006**

**March 31, 2005**

**Cash flows from operating activities**

Net income (loss)  
    \$ (57,599)  
    \$ 60,741

Adjustments to reconcile net loss to net cash

Provided by (Used in) operating activities

Depreciation and amortization  
    611  
    592

Interest expenses on intrinsic value of the convertible debenture

Translation adjustments  
    3,025  
    2,045

Minority interest  
    -  
    126,547

Changes in assets and liabilities

(Increase)Decrease in accounts receivable  
    (965)  
    5,336



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(Increase)Decrease in prepaid expenses and other current assets

122,034

8,451

Increase in amount due from (to) related parties

(12,472)

(29,202)

Decrease in accounts payable

(25,278)

59,522

Increase in deferred revenue

(426,396)

(95,419)

Net cash provided by (used in) operating activities

(397,040)

138,613

**Cash flows from financing activities**

Issuance of common stock for cash

-

148,500

Net cash flows provided by financing activities

-

148,500

**Increase (Decrease) in cash and cash equivalents**

(397,040)

287,113

**Cash and cash equivalents - beginning of period**

6,138,609

5,380,622

**Cash and cash equivalents - end of period**

\$5,741,569

\$5,667,735

Supplemental Information :

Cash paid for :

Interest

\$53,600

\$1

Income taxes

-

-

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

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**CHINA MOBILITY SOLUTIONS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2006** ( Unaudited )

**1. Basis of Presentation**

The accompanying unaudited financial statements have been prepared in conformity with generally a

Certain items have been reclassified to conform to the current period presentation

**2. Property and Equipment**

March 31,

December 31,

2006

2005

Equipment  
\$ 26,986

\$ 26,986

Library

9,554

9,554

Furniture

10,189

10,189

Total

46,729

46,729

Less : Accumulated depreciation

(41,083)

(40,481)

Net book figures

\$ 5,646

\$ 6,248

The depreciation expense charged to continuing operations for the three-month period ended

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**3. Convertible debentures**

On August 15, 2005, the Company completed an offering of 134 units ("Units") for \$3,350,000. Each

Each Unit also includes: (i) new Series "A" Warrants exercisable at \$0.44 per share to purchase

On January 18, 2006, the Company received a letter (the "Default Notice") from the attorney for S

The Debenture was issued on August 15, 2005, as part of a \$3,350,000 offering of units. Under the

The Company denied that it was in default of the Transaction Agreements; however, in order to av

The Lender waived the S-8 Default set forth in the Default Notice and the Company agreed not to

The Company has recorded \$201,600 as expense for estimated liquidated damages in the statement of  
As of March 31, 2006, interest payable of \$27,512 has been recorded as part of the accounts payab

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**4. Basic and Diluted Earnings (Loss) Per Share**

Basic earnings (loss) per share are computed by dividing net earnings (loss) available to common

The following table sets forth the computations of shares and net loss used in the calculation of

Three months ended

March 31,

2006  
2005

Net income (loss) for the period  
(57,599)  
60,741

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Weighted-average number of shares outstanding

20,011,792

16,024,670

Effective of dilutive securities :

Dilutive options - \$0.30

-

-

Dilutive warrants new Series "A" - \$0.44

-

-

Dilutive warrants new Series "B" - \$0.52

-

-

Dilutive potential common shares

-

-

Adjusted weighted-average shares and assumed conversions

20,011,792

16,024,670

Basic income (loss) per share attributable to common shareholders

\$ (0.00)

\$ 0.00

Diluted income (loss) per share attributable to common shareholders

\$ (0.00)

\$ 0.00

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

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**5. Share Purchase Warrants**

During the quarter ended March 31, 2006, 10 Series "B" warrants which entitle the holders to purchase

As of March 31, 2006, 134 new Series "A" warrants were outstanding which entitle the holders to purchase

**6. Stock Options**

The Company filed a Form S-8 Registration Statement for its 2006 non-qualified Stock Option Plan

Options outstanding at March 31, 2006 were 660,000 with an option price of \$0.30 each. No options

Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value

As of January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective method

Since the Company did not issue stock options to employees during the three months ended March 31,

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**7. Related Party Transactions**

During the three-month period ended March 31, 2006, the Company paid \$14,475, as compared with \$

**8. New Accounting Pronouncements**

There have been no new pronouncements issued since March 31, 2005, that are expected to have a material

**9. Segment and Geographic Data**

The Company's reportable segments are geographic areas and two operating segments, the latter comprising

A. By geographic areas

China  
Canada  
Other  
Total

Three months ended March 31, 2006

Revenue from continuing operations

\$ 1,440,917  
\$ 19,027  
\$ -  
\$ 1,459,944

Operating income (loss)

387,730  
(39,158)  
(430,729)  
(82,157)

Total assets

3,257,230  
298,983  
7,159,902  
10,716,115

Depreciation

-  
611  
-  
611

Interest income

6,303  
397  
17,858  
24,558

Income from discontinued operations

-  
-  
-  
-

Investment in equity method investee

-  
-

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1  
1

Three months ended March 31, 2005

Revenue from continuing operations

\$ 1,052,529

\$ 74,678

\$ -

\$ 1,127,207

Operating income (loss)

257,183

7,212

(96,333)

168,062

Total assets

6,589,865

112,381

46,720

6,748,966

Depreciation

-

584

8

592

Interest income

17,238

4

-

17,242

Income from discontinued operations

-

-

-

-

Investment in equity method investee

-

-

1

1



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B. By operating segments  
    Mobile communications  
  
    ESL education  
  
    Other  
    Total

For the three months ended March 31, 2006

Revenue from external customers  
    \$ 1,440,917  
    \$ 19,027  
    \$ -  
    \$ 1,459,944

Intersegment revenue

-  
-  
-  
-

Interest revenue

6,303  
397  
17,858  
24,558

Interest expense

-  
-  
54,312  
54,312

Depreciation

-

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436  
175  
611

Segment operation profit (loss)

387,730  
(12,385)  
(457,502)  
(82,157)

Segment assets

3,257,230  
78,739  
7,380,146  
10,716,115

For the three months ended March 31, 2005

Revenue from external customers

\$ 1,052,529  
\$ 74,678  
\$ -  
\$ 1,127,207

Intersegment revenue

-  
-  
-  
-

Interest revenue

-  
4  
17,238  
17,242

Interest expense

-  
-  
1  
1

Depreciation

-  
542  
50  
592

Segment operation profit (loss)

258,260  
28,235  
(118,433)  
168,062

Segment assets

2,303,522  
99,819  
4,345,625  
6,748,966

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**Index Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The information presented here should be read in conjunction with China Mobility Solutions, Inc.'s

**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis is based upon our consolidated financial statements, which have been

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based

**RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2006 AS COMPARED TO THE QUARTER ENDED MARCH 31, 2005**  
Revenues. The Company had revenues of \$1,459,944 in the first quarter of 2006 compared to \$1,127,000 in the first quarter of 2005.

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Index Business Segments

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

Mobile marketing services  
\$  
1,440,917

Windsor - ESL Education  
\$  
\$19,027

The cost of revenue in each segment was:

Mobile marketing services  
\$  
291,833

Windsor  
\$  
4,632

The gross profit from each of the business segments was:

Mobile  
\$  
1,149,084

Windsor  
\$  
14,395

\$  
1,163,479

Net Income/Loss per share: The per share earnings for the first quarter of 2006 was nil, and the per share loss for the first quarter of 2005 was \$0.02.

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The Company expects the trend of losses to continue at about the same rate in the succeeding period. At the end of the first quarter of 2006, Company had assets of \$10,716,115 compared to \$11,222,360 at the end of the first quarter of 2005.

The Company had cash capital of \$5,741,569 at the quarter ended March 31, 2006, which will be used for the operations of the Company.

At the quarter ended March 31, 2006, it had \$5,907,256 in current assets and current liabilities.

The Company's cash on hand decreased from \$6,138,609 at December 31, 2005 to \$5,741,569 at March 31, 2006.

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### Index      **Need for Additional Financing:**

The Company believes it has sufficient capital to meet its short-term cash needs, including the cost of operations.

No commitments to provide additional funds have been made by management or other stockholders. A

If future revenue declines, or operations are unprofitable, it will be forced to develop another source of capital.

From the aspect of whether it can continue toward the business goal of maintaining and expanding its operations.

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

### **Market Risk:**

The Company does not hold any derivatives or investments that are subject to market risk. The carrying amount of the Company's cash and cash equivalents is \$5,741,569.

### **Future Trends:**

For the Education Services side, we have operated for over two years now, the competition is very intense.

The Company has experienced growth in revenues in its Quicknet services, and it anticipates future growth.

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### Index      **Item 3. Controls and Procedures. Quarterly Evaluation of Controls.**

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of our disclosure controls and procedures. Based upon the Evaluation, our CEO and CFO determined that our disclosure controls and procedures were effective.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

On February 7, 2005, we were sued by Sino-I Technology Limited, in the Supreme Court of British Columbia.

No director, officer or affiliate of ours and no owner of record or beneficial owner of more than 10% of our common shares was named as a party to the lawsuit.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None

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#### **Item 3. Defaults Upon Senior Securities.**

On January 18, 2006, China Mobility Solutions, Inc. (the "Company") received a letter (the "Default Notice") from the Lender stating that the Company was in default of the Transaction Agreements.

The Company denied that it was in default of the Transaction Agreements; however, in order to avoid a default judgment, the Company entered into a Waiver/Settlement Agreement with the Lender.

The Debenture was issued on August 15, 2005, as part of a \$3,350,000 offering of units. Under the terms of the Debenture, the Company is required to maintain a certain level of liquidity.

In accordance with the terms of the Waiver/Settlement Agreement, the initial conversion price of the Debenture was set at \$1.00 per unit.

The Lender waived the S-8 Default set forth in the Default Notice and the Company agreed not to file a Form 8-K to report the receipt of the Default Notice.

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

None

#### **Item 5. Other Information.**

None. **Item 6. Exhibits and Reports on Form 8-K.** Reports on Form 8-K:

(a) Filed a Form 8-K on February 3, 2006 to report the receipt of a default letter with respect to the Debenture.

(b) File a Form 8-K on May 10, 2006 to report the entry into a Waiver/Settlement Agreement with the Lender.

Exhibits:

Copies of the following documents are included as exhibits to this quarterly report pursuant to I

**EXHIBIT INDEX**

**ExhibitNumber**

**Description**

31.1

Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section

31.2

Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Sectio

32.1

Certification pursuant to 18U.S.C. 1350, as adopted pursuant to Section 906 of the Sarban

32.2

Certification pursuant to 18 V.S.C. 1350, as adopted pursuant to Section 906 of the Sarba

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caus

**CHINA MOBILITY SOLUTIONS, INC.** (Registrant)

Date: *July 24, 2006*  
By:  
*/s/ Angela Du*

*Angela Du* Chief Executive Officer and Principal Accounting Officer

Date: *July 24, 2006*  
By:  
*/s/ Ernest Cheung*

*Ernest Cheung* Principal Financial Officer