XIN NET CORP
Form 10QSB
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of

the Securities Exchange Act of 1934

CIK NO.: 0001042053

For Quarter Ended September 30, 2002

Commission File Number
0-26559

XIN NET CORP.

(Exact name of registrant as specified in its charter)

Florida	330-751560
(State of incorporation)	(I.R.S. Employer Identification No.)

#950 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2

(Address of principal executive offices) (Postal Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

41,360,010 as of November 11, 2002.

XIN NET CORP.
INDEX TO QUARTERLY REPORT
ON FORM 10-QSB

ITEM 1. FINANCIAL STATEMENTS

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Stated in U.S. dollars	September 30, 2002 (Unaudited)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$683,630	$1,360,
Investments	14,259	64,
Accrued Interest Receivables	12	
Loan to ProtectServe Pacific Ltd.	-	360,
Inventory	6,212	5,
Prepaid Expenses and Other Current Assets	173,255	183,
Net Assets of Discontinued Operations	293,445	293,

Deferred Costs	758,722	571,
Total Current Assets	1,929,535	2,839,
Investment - at equity (Note 4)	629,800	
Property and Equipment, Net (Note 2)	528,981	714,
Goodwill	-	200,
Total Assets	$ 3,088,316	$3,753,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Other Accrued Liabilities	$ 640,387	$683,
Deferred Revenue	1,866,667	1,861,
Security Deposit	500,000	500,
Capital Lease Obligation (Note 3)	-	58,
	3,007,054	3,104,
Commitments and Contingencies	-	
Stockholders' Equity		
Common Stock : $0.001 Par Value		
Authorized : 50,000,000		
Issued and Outstanding : 21,360,010	21,360	21,
Additional Paid In Capital	7,214,045	7,214,
Accumulated Deficit	(7,004,231)	(6,437,
Accumulated Other Comprehensive Income	(149,912)	(148,
Total Stockholders' Equity	81,262	649,
Total Liabilities and Stockholders' Equity	$ 3,088,316	$3,753,

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XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Stated in U.S. dollars	Three Months Ended September 30, 2002	2001
Revenue		
Domain Name Registration	$ 770,061	$686,323
E-Solutions	358,753	285,894
	1,128,814	972,217
Cost of Revenue		
Domain Name Registration	428,024	306,411
E-Solutions	31,475	16,852
	459,499	323,263
Gross Profit	669,315	648,954
Expenses		
Advertising and promotion	48,833	101,998
Depreciation and Amortization	58,337	65,487
General and administrative	131,692	214,853
Rent	109,811	92,269
Salaries, wages and benefits	342,465	323,766
Telephone and communication	58,673	143,263
	749,811	941,636
Operating Loss	(80,496)	(292,682)
Other Income and Expenses		
Interest income	145	9,520
Other income	-	-
Equity loss in undistributed earnings of investee company (Note 4)	(89,708)	-
Loss on disposal of capital assets	-	-
	(89,563)	9,520
Loss from Continuing Operations	(170,059)	(283,162)
Loss from Discontinued Operations	-	-
Net Loss Available to Common Stockholders	$ (170,059)	$(283,162)
Loss per share attributable to common stockholders:		
Loss from continuing operations	($0.01)	($0.01)
Loss from discontinued operations	-	-
Total basic and diluted	($0.01)	($0.01)

Weighted average number of common shares outstanding:		
Basic and diluted	21,360,010	21,360,010

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND THE YEARS ENDED DECEMBER 31, 2001
(Unaudited)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumulated Deficit	Accumul Othe Comprehe Inco
Balance, December 31, 1999	21,360,000	$21,360	$7,214,025	$ (1,318,945)	$(10
Exercise of Warrant for cash at $2.00 per share in September 2000	10	-	20		
Net loss				(3,607,724)	
Translation Adjustments					(4
Balance, December 31, 2000	21,360,010	21,360	7,214,045	(4,926,669)	(15
Net loss				(1,510,903)	
Translation Adjustments					
Balance, December 31, 2001	21,360,010	21,360	7,214,045	(6,437,572)	(14
Net loss				(566,659)	
Translation Adjustments					(
Balance, September 30, 2002	21,360,010	$21,360	$7,214,045	$ (7,004,231)	$ (14

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(Unaudited)

Stated in U.S. dollars	2002	
Cash flows from operating activities		
Net loss	$(566,659)	$(1,
Adjustments to reconcile net loss to net cash Provided by (Used in) operating activities		
Depreciation and amortization	209,808	
Loss on disposal of capital assets	74,660	
Translation adjustments	(1,323)	
Equity loss of The Link Group, Inc.	170,500	
Changes in assets and liabilities		
Increase in accrued interest receivables	689	
(Increase) Decrease in prepaid expenses and other current assets	9,933	
(Increase) Decrease in inventory	(227)	
Decrease in net assets of discontinued operations	-	
Increase in deferred costs	(187,044)	
Increase (Decrease) in accounts payable	(43,441)	
Increase (Decrease) in deferred revenue	4,967	
Increase in security deposits	-	
Net cash used in operating activities	(328,137)	(
Cash flows from investing activities		
Purchases of property and equipment	(129,337)	(
Reduction in investment	49,818	
Reduction (Increase) in loan to ProtectServe Pacific Ltd.	360,400	(
Investment in The Link Group, Inc.	(600,300)	
Net cash flows used in investing activities	(319,419)	(
Cash flows from financing activities		
Principal payments on capital lease obligations	(28,885)	

Net cash flows used in financing activities	(28,885)	
Decrease in cash and cash equivalents	(676,441)	(
Cash and cash equivalents - beginning of period	1,360,071	2,
Cash and cash equivalents - end of period	$683,630	$1,

Supplemental Information :
Cash paid for :

Interest	$9,475	
Income taxes	7,176	

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002
(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of the management all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2001 included in its Annual Report on Form 10-KSB.

The unaudited condensed consolidated financial statements include Xin Net Corp. and its subsidiaries. Significant inter-company transactions and accounts have been eliminated.

2. Property and Equipment

Property and equipment consists of the following:

	September 30, 2002	December
Office equipment	$ 226,022	$
Equipment	776,272	
Computer software	76,580	

Furniture	27,976	
Total	1,106,850	
Less: Accumulated depreciation	(577,869)	
Net book value	$ 528,981	$

The depreciation expense charged to continuing operations for the three-month and nine-month periods ended September 30, 2002 are $58,337 and $209,808 respectively.

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

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

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

On February 18, 2002, the shareholders of Link approved the reverse split of the issued and outstanding common shares of Link at the ratio of one for four, thereby making the Company's total Link shares held equal to 15,370,675 shares, representing 28.8% of the total issued and outstanding shares of Link. On October 10, 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 increases to 34.1%. The Company accounted 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 follow:

Original cost of 15,370,675 shares of The Link Group, Inc.	$ 800,300
Equity in undistributed losses of investee company	(170,500)
Investment - at equity	$ 629,800

4. Basic and Diluted Earnings (Loss) Per Share

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

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three-month and nine-month periods ended September 30, 2002 and 2001:

	Three months ended 9/30/2002	Three months ended 9/30/2001	Nine m 9/30/2002
Loss from continuing operations	$ (170,059)	$ (283,162)	$ (566,6
Loss from discontinued operations	-	-	
Net loss for the period	(170,059)	(283,162)	(566,6
Weighted-average shares outstanding	21,360,010	21,360,010	21,360,0
Effect of dilutive securities:			
Dilutive options - $1.30	-	-	
Dilutive warrants - $1.00	-	-	
Dilutive warrants - $1.50	-	-	
Dilutive potential common shares	-	-	
Adjusted weighted-average shares and assumed conversions	21,360,010	21,360,010	21,360,0
Loss per share attributable to common shareholders:			
Loss from continuing operations	(0.01)	(0.01)	(0.
Loss from discontinued operations	-	-	
Total basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.

The effect of outstanding options and warrants was not included as the effect would be anti-dilutive.

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5. Total Amount Advanced to Joint Venture

As at September 30, 2002, the total amount advanced to the joint venture project is $3,020,459.

6. Segment and Geographic Data

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

		China		Canada		Other	
For the three months ended September 30, 2002							
Revenue from continuing operations	$	1,128,814	$	-	$	-	$
Operating loss		(41,652)		(3,042)		(35,802)	
Total Assets		2,367,683		6,576		714,057	
For the three months ended September 30, 2001							
Revenue from continuing operations	$	972,217	$	-	$	-	$
Operating Loss		(194,541)		(7,423)		(90,718)	
Total Assets		2,589,923		30,726		1,097,613	
For the nine months ended September 30, 2002							
Revenue from continuing operations	$	3,248,690	$	-	$	-	$
Operating Loss		(193,652)		(11,393)		(130,774)	
Total Assets		2,367,683		6,576		714,057	
For the nine months ended September 30, 2001							
Revenue from continuing operations	$	2,516,215	$	-	$	-	$
Operating Loss		(958,856)		(13,964)		(170,172)	
Total Assets		2,589,923		30,726		1,097,613	

7. Subsequent Events

The Company has completed a private placement of 20 million common shares at $0.05 per share for a gross proceed of $1 million on October 30, 2002. These private placement shares will not have any right to any future distribution of The Link Group, Inc. shares that the Company currently owns. After the private placement, total issued and outstanding shares of the Company's common stock are 41,360,010. The effect of the issuance of 20,000,000 shares diluted the

Company's common stock outstanding by approximately 48%. The transaction was approved by the Board of Directors.

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

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of Xin Net Corp. and Subsidiaries (the "Company") financial condition, changes in financial condition and results of operations. The MD&A is organized as follows:

- Caution concerning forward-looking statements. This section discusses how certain forward-looking statements made by the Company throughout the MD&A and in the consolidated financial statements are based on management's present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

- Recent accounting pronouncements - This section provides an update on the Financial Accounting Standards Board's recent accounting pronouncements.

- Critical accounting policies. This section provides an analysis of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

- Liquidity and capital resources. This section provides an analysis of the Company's financial condition and cash flows as of and for the nine months ended September 30, 2002.

- Results of operations. This section provides an analysis of the Company's results of operations for the third quarter of 2002 relative to that of 2001. A brief description is provided of transactions and events that impact the comparability of the results being analyzed.

- Nature of the Company's present operation and future trends. This section provides a general description of the Company's business, as well as recent developments that the Company believes are important in understanding the results of operations, as well as to anticipate future trends in those operations.

- Future trends. This section provides a discussion on events that are likely to have an impact on short-term or long-term liquidity.

Caution concerning forward-looking statements

The following discussion should be read in conjunction with Xin Net Corp.'s ("we," "us," or the "Company") financial statements and the notes thereto and the other financial information appearing elsewhere in this document. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. When used in this discussion, the words "believes," "anticipates," "expects," "intends," "will" and similar expressions are intended to identify forward-looking statements.

Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected due to a number of factors beyond the Company's control. The Company does not undertake to publicly update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are also urged to carefully review and consider the Company's discussions regarding the various factors, which affect its business, included in this section and elsewhere in this report.

Recent Accounting Pronouncements

The Financial Accounting Standards Board has issued the following accounting pronouncements, none of which are expected to have a significant effect, if any, on the company's financial statements:

April 2002 - SFAS No. 145 - "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement is effective for fiscal years beginning after May 15, 2002.

June 2002 - SFAS No. 146 - "Accounting for Costs Associated with Exit or Disposal Activities," which applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The standard addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 essentially requires a liability to be recognized and measured initially at its fair value in the period in which the liability is incurred for a cost associated with an exit or disposal activity. The Company believes this standard does not have any material effect on its financial statements.
Effective for exit or disposal activities initiated after December 31, 2002.

October 2002 - 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. Effective for acquisitions for which the date of acquisition is on or after October 1, 2002.

Critical Accounting Policies And Estimates

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

We consider the following accounting policies to be affected by management's estimates and/or judgments:

Deferred revenue and deferred costs: The Company's revenue is primarily derived from the sale of nonrefundable services: domain name registration services, web hosting and e-solution provision services, and is recognized over the period the services are provided. Deferred revenue consists primarily of prepaid subscription agreements and 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 consists primarily of amounts paid to various Registrars for domain name registration fees and are deferred on the same basis as revenue. Deferred revenue represents 62% of the Company's total current liabilities at September 30, 2002 and deferred costs represent 39% of the Company's total current assets at September 30, 2002, or 25% of the Company's total assets.

Investment in "The Link Group, Inc." ("Link"): The Company's investment in The Link Group, Inc. will be subject to market volatility. The Company owns 28.8% of the total issued and outstanding shares of Link as of September 30, 2002 and accounts for the investment on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. The asset's carrying value at September 30, 2002, was $629,800, representing 20.4% of the Company's total assets.

Liquidity and capital resources

Liquidity. The Company had net cash, receivables and investments of $697,901 at September 30, 2002. The Company has no other capital resources other than the ability to use its common stock to raise additional capital. It did not raise any additional capital during the first quarter, second quarter or third quarter of 2002. It has equipment of $528,981 on the books, which is not necessarily liquid at such value. It has an investment in The Link Group, Inc. acquired at a cost of $800,300. Other than cash capital, its other assets would be illiquid.

At the end of the quarter, it had $1,929,535 in current assets. It had current liabilities of $3,007,054, which included deferred revenues of $1,866,667 and a security deposit of $500,000 from the sale of its Internet Access Provision business in June 2001. (In the third quarter, the Company continued to experience delays in obtaining new funding; it plans to close the sale of its Internet Access Provision services when this issue is resolved).

The cash capital at the end of the quarter of $683,630 will be used to fund continued operations, which management believes is adequate to satisfy its cash requirements for the next six to twelve months. The trend of operating losses could continue due to costs of equipment and telecommunications, design of new value-added services start up operations for new locations and advertising and marketing that precede development of additional revenue for the Company.

Cash flows. Net cash flows used in operating activities decreased to $328,137 in the first nine months in 2002 from $436,370 in the corresponding period in 2001. The single most important item, which contributed to this result, was the decrease in net loss to $566,659 in the first nine months in 2002, as compared to $1,534,783 in the first nine months in 2001. Net loss decreased primarily as a result of an increase in gross margin of $282,034, a decrease in operating expenses of $525,139, and a decrease in loss from discontinued operations of $442,828. Net cash flow used in investing decreased to $319,419 in first nine months in 2002 as compared $450,863 in first nine months 2001 primarily due to an investment of $600,300 in The Link Group, Inc., combined with the repayment of a $360,400 loan to the Company by ProtectServe Pacific Ltd. Purchases of equipment decreased to $129,337 in first nine months 2002 from $150,929 in first nine months 2001. Net cash flow used in financing activities decreased to $28,885 in first nine months 2002, compared to $49,631 in the year 2001 corresponding period.

Changes in Financial Condition. At the end of the third quarter 2002, Company assets had decreased to $3,088,316 compared to $3,753,612 at year-end 2001. The current assets totaled $1,929,535 at the end of third quarter 2002 compared to $2,839,441 at year-end 2001. Total liabilities at end of third quarter 2002 were $3,007,054 compared to $3,104,368 at year-end 2001. At September 30, 2002 the Company had $683,630 in cash compared to $1,360,071 at year-end 2001. Net cash, investments and receivables at September 30, 2002 totaled $697,901.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2001.

Revenues. Revenues (excluding those generated by Internet Access Provision services which the Company ceased providing since June 2001) in third quarter 2002 rose 16% to $1,128,814 in the form of net sales from its joint venture with Xin Hai Technology Ltd, as compared to net sales of $972,217 in third quarter 2001. The increase is a result of the Company's continued efforts in expanding its customer base due to sales and marketing strategies in the areas of domain name registration and e-solutions services.

Cost of revenues and gross margin. The Company had cost of revenues of $459,499 in third quarter 2002, as compared to $323,263 in third quarter 2001. Gross profit in third quarter 2002 was $669,315 compared to $648,954 in third quarter 2001.

Operating expenses. The Company incurred operating expenses of $749,811 in third quarter 2002 compared to operating expenses of $941,636 in third quarter 2001, a decrease of 20%. This result, achieved against the backdrop of an increase in

revenues of 16%, was made possible by the cost-cutting measures which the Company implemented throughout 2001 and continued in the first nine months 2002. Expenses that decreased significantly were: advertising and promotion to $48,833 from $101,998, general and administrative to $131,692 from $214,853, and telephone and communication to $58,673 from $143,263.

Net loss and loss per share. Operating loss for third quarter 2002 decreased by 72% to $80,496 compared to the third quarter 2001 operating loss of $292,682. The company had "other loss" of $89,563 in third quarter 2002 compared to" other gain" of $9,520 in third quarter 2001. The net loss in third quarter 2002 was $170,059 ($0.01/share) compared to the net loss in third quarter 2001 of $283,162 ($0.01/share).

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THE SAME PERIOD IN 2001.

Revenues. Revenues (excluding those generated by Internet Access Provision services which the Company ceased providing since June 2001) in the nine months 2002 rose to $3,248,690 in the form of net sales from its joint venture with Xin

Hai Technology Ltd, as compared to net sales of $2,516,215 in the same period in 2001. The increase is a result of the Company's continued efforts in expanding its customer base due to sales and marketing strategies in the areas of domain name registration and e-solutions services.

Cost of revenues and gross margin. The Company had cost of revenues of $1,301,328 in the period in 2002, as compared to $850,887 in the period in 2001. Gross profit in the period in 2002 was $1,947,362 compared to $1,665,328 in the period in 2001.

Operating expenses. The Company incurred operating expenses of $2,283,181 in the period in 2002 compared to operating expenses of $2,808,320 in the period in 2001, a decrease of 19%. This result, achieved against the backdrop of an increase in revenues of $732,475, was made possible by the cost-cutting measures, which the Company implemented throughout 2001 and continued 2002. All expense categories, except for depreciation and amortization, saw a decrease. The major decreases were: advertising and promotion to $124,842 from $340,946; telephone and communications to $213,102 from $325,820. Depreciation and amortization increased to $209,808 from $159,459.

Net loss and loss per share. Operating loss for the period in 2002 decreased by $807,173 (71%) to $335,819 compared to the same period in 2001 operating loss of $1,142,992. The company had "other loss" of $230,840 in the period in 2002 compared to "other gain" of $51,037 in the period in 2001. The net loss in the period in 2002 was $566,659 ($0.03/share) compared to the net loss in the same period in 2001 of $1,534,783 ($0.05/share).

Nature of the Company's Present Operations and Future Trends

New Funding. On October 30, 2002, the Company raised USD 1 million in new funding by way of a private placement of 20 million common shares at USD 0.05 per share. The Company believes it has sufficient capital to meet its foreseeable cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. But if losses continue it may have to sell its investments, seek loans or equity placements to cover longer term cash needs to continue operations and expansion. The Company signed a funding agreement with the iBanc Group, Inc. in November 2001. During the course of the third quarter, the Company persevered in its efforts to obtain this funding, but no concrete results have followed thus far. And there is no assurance that new funds will become available. 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 long-term operations expenses and expansion of its business.

Future Trends. If future revenue declines, or operations continue to be 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. From the aspect of whether it can continue toward the business goal of maintaining and expanding the joint venture for Internet services in China, it may use all of its available capital without generating a profit. The Company will continue its cost-saving measures and ongoing efforts to increase revenues in order to achieve profitability. However the Company cannot assure that any profit on revenues can occur in the future. It may have to continue, through its joint venture business, to advertise and promote its services and develop additional value-added services. Operating losses may continue.

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

Market Risk. The Company's investments in The Link Group, Inc. will be subject to market volatility. It does not hold any derivatives or other 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 that eliminates any potential market risk associated with such instruments.

ITEM 3. CONTROLS AND PROCEDURES

The chief executive officer and the chief financial officer of the Registrant, have concluded based on their evaluation as of a date within 90 days prior to the date of the filing of this Report, that the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports filed or submitted by it under the Securities Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Registrant in such reports is accumulated and communicated to the Registrant's management, including the president, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

Effective November 1, 2002, Mr. Marc Hung resigned as President and Chief

Accounting Officer for personal reasons. Mr. Hung remains as a Director of the Company.

Ms. Angela Du was appointed President and Chief Accounting Officer effective November 1, 2002. Ms. Du, age 32, is also a Director of Infornet Investment Limited (a Hong Kong corporation), and where our operations primarily reside. Ms. Du was President and Director of Xin Net Corp. from 1997 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.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XIN NET CORP.
(Registrant)

Dated: November 13, 2002

By: /s/ Angela Du
President

/s/ Ernest Cheung
Chief Financial Officer