XIN NET CORP
Form 10QSB
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10QSB

Quarterly Report under Section 13 or 15(d) of

the Securities Exchange Act of 1934

CIK NO.: 0001042053

For Quarter Ended September 30, 2001	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.)

#830 - 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.

21,360,010 as of September 30, 2001

ITEM 1. FINANCIAL STATEMENTS

XIN NET CORP.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

(Stated in U.S. dollars)

(Unaudited)

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(Prepared by management and without audit)

Stated in U.S. dollars		September 30, 2001	Decembe
ASSETS			
Current Assets			
Cash and Short term deposits	$	1,682,424	$
Investments		1,267	
Accounts Receivables		482,422	
Other Receivables		1,713	
Loan to ProtectServe Pacific Ltd.		300,000	
Inventory		-	
Prepaid Expenses		50,116	
Deferred Costs		475,059	
Total Current Assets			
		2,993,001	
Property and Equipment, Net (Note 2)		1,041,888	
Total Assets	$	4,034,889	$
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Other Accrued Liabilities	$	666,318	$
Unearned Revenue		2,170,488	
Security Deposit (Note 4)		500,000	
Capital Lease Obligation, Current Portion (Note 3)		74,274	
		3,411,080	
Capital Lease Obligation, Noncurrent Portion		-	
Commitments and Contingencies (Notes 3,4)		-	
Stockholders' Equity			
Common Stock : $0.001 Par Value			
Authorized : 50,000,000			

Issued and Outstanding : 21,360,010	21,360	
Additional Paid In Capital	7,214,045	
Accumulated Deficit	(6,461,452)	(
Accumulated Other Comprehensive Income	(150,144)	
Total Stockholders' Equity	623,809	
Total Liabilities and Stockholders' Equity	$ 4,034,889	$

See accompanying notes

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Prepared by management and without audit)

Stated in U.S. dollars	Three Months Ended September 30, 2001	2000	Nine 2
Revenue			
Domain Name Registration	$ 686,323	$ 107,822	
E-Solutions	285,894	261,951	
	972,217	369,773	
Cost of Revenue			
Domain Name Registration	306,411	55,624	
E-Solutions	16,852	8,216	
	323,263	63,840	
Gross Profit	648,954	305,933	
Expenses			
Advertising and promotion	101,998	222,472	
Amortization	65,487	11,219	
General and administrative	307,122	325,688	
Salaries, wages and benefits	323,766	265,697	
Telephone and communication	143,263	154,122	
	941,636	979,198	
Operating Loss	(292,682)	(673,265)	
Other Income			
Interest income	9,520	35,352	
Loss from Continuing Operations	(283,162)	(637,913)	
Loss from Discontinued Operations - Internet Access Card services (Note 4)	-	(381,159)	

Net Loss Available to Common Stockholders	$ (283,162)	$ (1,019,072)	$
Basic and Diluted Loss from Continuing Operations per Share (Note 5)	$ (0.01)	$ (0.03)	
Basic and Diluted Weighted Average Common Shares Outstanding (Note 5)	21,360,010	21,360,000	

See accompanying notes.

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND YEAR ENDED DECEMBER 31
(Prepared by management and without audit)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumu Defi
Balance, December 31, 1999	21,360,000	$ 21,360	$ 7,214,025	$ (1,31
Exercise of Warrant for cash at $2.00 per share in September 2000	10	-	20	
Loss for the year ended December 31, 2000				(3,60
Other Comprehensive Income : Translation Adjustments				
Balance, December 31, 2000	21,360,010	21,360	7,214,045	(4,92
Loss for the nine months ended September 30, 2001				(1,53
Other Comprehensive Income : Translation Adjustments				
Balance, September 30, 2001	21,360,010	$ 21,360	$ 7,214,045	$ (6,46

See accompanying notes.

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(Prepared by management and without audit)

Stated in U.S. dollars	2001	2
Cash flows from operating activities		
Net loss	$ (1,534,783)	$ (2,311,5
Adjustments to reconcile net loss to net cash		
Provided by (Used in) operating activities		
Depreciation and amortization	200,574	147,
Translation adjustments	2,112	(19,4
Changes in assets and liabilities		
Decrease (Increase) in accounts receivables	122,549	(364,6
Decrease in other receivables	4,918	
Increase in prepaid expenses	(3,970)	(347,4
Decrease (Increase) in inventory	36,156	(54,5
Increase in deferred costs	(9,874)	
Increase in accounts payable	154,625	66,
Increase in unearned revenue	57,728	863,
Increase in security deposit	500,000	
Net cash used in operating activities	(469,965)	(2,020,9
Cash flows from investing activities		
Purchases of property and equipment	(117,334)	(700,6
Reduction in investment	66	
Increase in organizational costs	-	(1,2
Loan to ProtectServe Pacific Ltd.	(300,000)	
Net cash flows used in investing activities	(417,268)	(701,9
Cash flows from financing activities		
Principal payments on capital lease obligations	(49,631)	(47,1
Issuance of common stock	-	
Net cash flows used in financing activities	(49,631)	(47,0
Decrease in cash and cash equivalents	(936,864)	(2,769,9
Cash and cash equivalents - beginning of period	2,619,288	5,512,
Cash and cash equivalents - end of period	$ 1,682,424	$ 2,742,

See accompanying notes

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XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(Prepared by management and without audit)

Stated in U.S. dollars	2001	2000
Supplemental Information :		
Cash paid for :		
Interest	$ 8,988	$ 14,145
Income taxes	-	-

See accompanying notes.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

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, 2000 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, 2001	December 31, 2000
Office equipment	233,198	230,809

Equipment	1,189,251	1,074,464
Computer software	83,299	83,156
Furniture	28,912	28,912
Total	1,534,660	1,417,341
Less : Accumulated depreciation	(492,772)	(292,213)
Net book value	1,041,888	1,125,128

The depreciation expense charged to continuing operations and discontinued operations for the nine-month period ended September 30, 2001 is $159,459 and $41,056 respectively.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

3 Capital Lease Obligation

The Company leases computer equipment, through its wholly owned subsidiary company Infornet Investment Corp., repayable at approximately $5,330 (CND 8,407) per month to June 30, 2002. The liability includes imputed interest at an average rate of 6.12% per annum.

Total minimum lease payments For the year ended September 30	
2002	$ 76,870
Less : Amount representing interest	(2,596)
Present value of minimum lease payment	74,274
Less : Current portion	(74,274)
	$ -

4 Discontinued Operations

The Board of Directors of the Company decided to discontinue the unprofitable internet access provision ("ISP") services in the People's Republic of China ("P.R.C."). The Company's joint venture partner, Xin Hai Technology Development Ltd., has signed an agreement on June 22, 2001 to sell its ISP operation and related assets to a private company in Beijing, P.R.C. for a sales proceeds of $700,000. The agreement is subject to payments being made by the other party at specified dates and to Company shareholders' approval. As at September 30, 2001, $500,000 has been received as a security deposit for the transaction.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

4 Discontinued Operations (Continued)

The estimated gain on disposal of the ISP services, together with the related assets and liabilities to be disposed, are as follows : -

Sales proceeds		$ 700,000
Less : Capital assets	$ 320,771	
Accounts receivable	290,016	
		(610,787)
Add : Unearned revenue		316,627
Gain on disposal of ISP business		$ 405,840

The results of the discontinued ISP operations for the three-month and nine-month periods ended September 30, 2001 and 2000 are as follows :-

	Three months ended 9/30/2001	Three months ended 9/30/2000	Nine months ended 9/30/2001	Nine months ended 9/30/2000
Revenue	$ -	$ 512,850	$ 832,696	$ 1,309,
Operating costs	-	(894,009)	(1,275,524)	(2,147,1
Net loss	$ -	$ (381,159)	$ (442,828)	$ (837,6

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001 and 2000

(Prepared by management and without audit)

5 Acquisition of ProtectServe Pacific Ltd. ("PSP") and Spin Off of Remain -ing Business

On October 1, 2001, the Company signed a share exchange agreement to acquire 100% ownership of PSP, a privately-owned company based in Hong Kong. PSP is an innovative developer and provider of state-of-the-art web-based surveillance, monitoring and control systems.

As of September 30, 2001, the Company has made cash loans of $300,000 to PSP in order to allow it to begin implementing its expansion plan. After obtaining the approval of the shareholders on the disposal of the ISP business and related assets and the spin-off of remaining assets and liabilities as discussed in the following paragraph, the Company will issue 4.2 million restricted common shares to PSP, in exchange of 100% of ownership of PSP, and PSP will nominate 3 new members to sit on the Company's Board of Directors. In addition, contingent upon performance criteria, the Company will grant to PSP stock purchase options at the nominal price of $0.001 per option. The exact amount of such options to be granted, to a maximum amount of approximately 18 million, will be determined by the level of net income achieved by PSP for the 12-month period ending on August 31, 2002. The Company is presently engaged in the process of seeking alternative approaches to close the share exchange agreement with PSP as soon as possible.

The Company also intends to transfer its remaining business assets and liabilities, except for cash $800,000 (which will be used to manage and expand PSP operations), to a new US-incorporated company, Xin Net International Corp.. The Company plans to obtain shareholders' approval to distribute, by way of a dividend, this new company's shares, on a pro-rata basis, to the shareholders of the Company on record as of a record date still to be determined.

6 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.

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XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

6 Basic and Diluted Earnings (Loss) Per Share (Continued)

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 quarters ended September 30, 2001 and 2000 :

	Three months ended		Nine months e
	9/30/2001	9/30/2000	9/30/2001
Net loss from continuing operations	$(283,162)	$ (1,019,072)	$(1,534,783) $
Weighted-average shares outstanding	21,360,010	21,360,000	21,360,010
Effect of dilutive securities :			
Dilutive options	-	-	-
Dilutive warrants	-	-	-
Dilutive potential common shares	-	-	-
Adjusted weighted-average shares and assumed conversions	21,360,010	21,360,000	21,360,010
Basic loss from continuing operations per share	$ (0.01)	$ (0.03)	$ (0.05)
Diluted loss from continuing operations per share	$ (0.01)	$ (0.03)	$ (0.05)

Due to the loss for the three-month periods and nine-month periods ended September 30, 2001 and 2000, the effect of outstanding options and warrants was not included as the effect would be anti-dilutive.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

7 Total Amount Advanced to Joint Venture

As at September 30, 2001, the total amount advanced to the joint venture project is $3,177,763.

8 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 three months ended September 30, 2001				
Revenue from continuing				
Operations	$ 972,217	-	-	$
Operating loss	(194,541)	(7,423)	(90,718)	
Total assets	2,906,550	30,726	1,097,613	4
For three months ended September 30, 2000				
Revenue from continuing				
Operations	$ 369,773	-	-	$
Operating loss	(638,160)	(2,560)	(32,545)	
Total assets	2,755,732	18,426	2,052,338	4

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

(Prepared by management and without audit)

8 Segment and Geographic Data (Continued)

	China	Canada	Other
For nine months ended September 30, 2001			
Revenue from continuing Operations	$ 2,516,215	-	-
Operating loss	(958,856)	(13,964)	(170,172)
Total assets	2,906,550	30,726	1,097,613

For nine months ended September 30, 2000

Revenue from continuing			
Operations	$1,052,434	-	-
Operating loss	(1,454,405)	(9,157)	(135,457)
Total assets	2,755,732	18,426	2,052,338

9 Subsequent Events

On November 5, 2001, the Company made an additional cash loan to PSP amounted to 60,400.

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

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

On June 22, 2001 the Company, through Xin Hai Technology Development Ltd. (Xin Hai), its Chinese joint venture partner, entered into an "Assets Transfer Agreement" under which the Company has agreed to transfer all the assets of the ISP (Internet Access Provision) operations in China to Beijing-based Sino Soft. The Company filed the "Assets Transfer Agreement" with the Securities and Exchange Commission (SEC) in its July 12, 2001 8-K/A Amended Current Report. The Company plans to seek shareholders' approval to close this agreement.

On July 31, 2001 the Company signed a letter of intent to acquire 100% ownership of Protectserve Pacific Ltd. ("PSP"), a privately-owned company based in Hong Kong. PSP is an innovative developer and provider of state-of-the-art web-based surveillance, monitoring & control systems. The Company filed the letter of intent in its August 3, 2001 8-K Current Report to the SEC. The Company and PSP subsequently signed the formal agreement, called the "Share Exchange Agreement", which the Company filed on October 4, 2001. The Company also intends to transfer its current business assets and liabilities, except for cash $800,000 (which will be used to manage and expand PSP operations), to its new, wholly-owned subsidiary, Xin Net International Corp. It plans to obtain shareholders' approval to distribute, by way of a dividend, Xin Net International shares, on a pro-rata basis, to the Company shareholders on record as of a record date still to be determined. The Company is presently engaged in the process of seeking to close the PSP Share Exchange Agreement as soon as possible.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of $1,682,424 at September 30, 2001.

The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. It is engaged in some serious negotiations to obtain new funds, but no definitive agreement has been signed to this date. It did not raise any additional capital during third quarter of 2001. It has equipment of $1,041,888 on the books, which is not necessarily liquid at such value. Other than cash capital, its other assets would be illiquid.

The Company has material commitments to expend funds to cover operating expenses of current operations in China. The trend of operating losses could continue due to the Company not being able to increase revenue sufficiently and/or reduce operating costs to a level such that current operations may break even or turn a profit.

Net cash flows used in operating activities decreased to $469,965 in the first nine months in 2001 from $2,020,917 in the corresponding period in 2000. The three biggest contributors to this result were: the increase in security deposit ($500,000 in the period in 2001 compared to nil in the same period in 2000); depreciation and amortization, which increased to $200,574 compared to year-ago amount of $147,396; and the increase in accounts payable, which increased to $154,625 compared to $66,105 in the same period in 2000. Net cash flow used in investing decreased to $417,268 in the nine month period in 2001 as compared $701,940 in the corresponding period in 2000 mainly due to purchases of equipment, which decreased to $117,334 in the nine month period 2001 from $700,670 in the same period in 2000, and the $300,000 loan to Protectserve Pacific Ltd. Net cash flow used in financing activities increased marginally to $49,631 in the period in 2001, compared to $47,095 in the corresponding period in 2000.

Changes in Financial Condition:

At the end of the third quarter 2001, Company assets had decreased to $4,034,889 compared to $4,904,838 at year-end 2000. Current assets totaled $2,993,001 at the end of the third quarter 2001 compared to $3,779,710 at year-end 2000. Total liabilities at end of third quarter 2001 were $3,411,080 compared to $2,748,358 at year-end 2000. At September 30, 2001 the Company had $1,682,424 in cash compared to $2,619,288 at year-end 2000. Of the $1,682,424 cash capital at the end of the quarter, an amount of $1,182,424 will be available to fund the continuing operations of domain name registration services and e-solutions. The balance of $500,000 will be set aside to be used in the management and expansion of Protectserve Pacific Ltd. business, in addition to the $300,000 loan already advanced to PSP. It is to be noted that the cash on hand includes a security deposit of $500,000 made to the Company by Sino Soft, related to the ISP assets transfer agreement signed on June 22, 2001.

Need for Additional Financing:

The Company has sufficient capital to meet its current cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. It may have to seek loans or equity placements to cover future cash needs to continue expansion of business. There is no assurance, however, that the available funds will ultimately prove to be adequate to continue Company business and its needs for additional financing are likely to persist.

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 finance its current 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. It is engaged in some serious negotiations to obtain new funds, but no definitive agreement has been signed to this date. Besides the acquisition of Hong Kong-based Protectserve Pacific Ltd., the Company has no specific management ability, nor financial resources or plans to enter any other business as of this date.

From the aspect of whether it can continue toward the business goal of maintaining and expanding the joint venture for internet 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.

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.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2001 AS COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2000.

Discontinued Operations: Internet Access Provision ("ISP") Operations

The Company phased out and eventually discontinued its ISP services in China during second quarter 2001. The Company had no ISP operations in the quarter ended September 30, 2001.

Continuing Operations: Domain Name Registration Services and E-Solutions (Web Site Design & Hosting, and E-Commerce Platforms)

The Company achieved revenue of $972,217 in third quarter 2001 as compared to revenue of $369,773 in third quarter 2000. The increase in revenue of $602,444 (163%) is largely due to domain name registration revenues, which increased to $686,323 in third quarter 2001 from 107,822 in third quarter 2000 as a result of continued targeted promotions and advertising. Revenues for e-solutions increased at a much lesser rate to $285,894 in third quarter 2001 from $261,951 in the same quarter in 2000 because of the highly competitive nature of the market and the large number of competitors. The Company had cost of revenue of $323,263 in the period in 2001, as compared to $63,840 in the same period in 2000. Gross profit in third quarter 2001 was $648,954 compared to $305,933 in third quarter 2000.

Operating expenses decreased to $941,636 in third quarter 2001 from $979,198 in third quarter 2000. This decrease in expenses, significant in the light of the large increase in revenue, was due to the lasting effect of cost saving measures implemented earlier in the year and continuing in the quarter. Except for Salaries, wages and benefits, which increased to $323,766 from $265,697 a year ago, and Depreciation, which increased to $65,487 from $11,219, all expense items decreased in the quarter as compared to the same quarter a year ago: Advertising and promotion to $101,998 from $222,472; General and administrative to $307,122 from $325,688 and Telephone and communication to $143,263 from $154,122.

Operating loss for third quarter 2001 was $292,682 in contrast to same period 2000 operating loss of $673,265. The Company had interest income of $9,520 in third quarter 2001 and $35,352 in third quarter 2000. The net loss from continuing operations in third quarter 2001 was $283,162 ($0.01/share) compared to the net loss in third quarter 2000 of $637,913 ($0.03/share).

RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001 AS COMPARED TO THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2000.

Discontinued Operations: Internet Access Provision ("ISP") Operations

The Company phased out and eventually discontinued its ISP services in China during second quarter 2001. The Company had no ISP operations in the quarter ended September 30, 2001.

Revenue generated by ISP operations totaled $832,696 in the nine month period in 2001 compared to $1,309,530 in the corresponding period in 2000. ISP operating costs were $1,275,524 in first nine month period in 2001 compared to ISP operating costs of $2,147,147 in the same period in 2000. Resulting ISP net loss amounted to $442,828 in first nine month period in 2001 compared to ISP net loss of $837,617 in the same period in 2000.

Continuing Operations: Domain Name Registration Services and E-Solutions (Web Site Design & Hosting, and E-Commerce Platforms)

The Company achieved revenue of $2,516,215 in first nine months of 2001 as compared to revenue of $1,052,434 in the corresponding period in 2000. The increase of $1,463,781 in revenue is largely due to domain name registration revenues which increased to $1,774,201 in the nine month period in 2001 from $607,032 in the corresponding period in 2000 as a result of the Company's successful targeted promotions and advertising. Revenues for e-solutions also increased significantly to $742,014 in the nine month period 2001 from $445,402 in the same period in 2000 for e-solutions. However the e-solutions provision market is fiercely competitive and occupied by a large number of competitors. The Company had cost of revenue of $850,887 in the period in 2001, as compared to $223,854 in the same period in 2000. Gross profit in the nine month period in 2001 was $1,665,328 compared to $828,580 in the corresponding period in 2000.

Operating expenses increased to $2,808,320 in the period in 2001 from $2,427,599 in the corresponding period in 2000. This increase in expenses, moderate when viewed in the light of the significant increase in revenue, was due mainly to Salaries, wages and benefits which increased to $1,136,129 from $501,838. Other increases were: Telephone and communication, to $325,820 from $265,053; and Depreciation, to $159,459 from $98,740. Decreases due to the implementation of cost saving measures were achieved in: General and administrative, to $845,966 from $951,632; and Advertising and promotion, to

$340,946 from $610,336.

Operating loss for the nine month period in 2001 was $1,142,992 in contrast to same period 2000 operating loss of $1,599,019. The Company had interest income of $51,037 in the period in 2001 and $125,105 in the corresponding period in 2000. The net loss from continuing operations in the nine month period in 2001 was $1,091,955 ($0.05/share) compared to the net loss in the corresponding period in 2000 of $1,473,914 ($0.07/share).

PROVISION FOR INCOME TAXES

Due to the company's loss position, no provision for income taxes has been included in these financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations". SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting. SFAS No. 141 also changes the criteria for the separate recognition of intangible assets acquired in a business combination. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. This statement does not currently affect the financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 addresses accounting and reporting for intangible assets acquired, except for those acquired in a business combination. SFAS No. 142 presumes that goodwill and certain intangible assets have indefinite useful lives. Accordingly, goodwill and certain intangibles will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 also addresses accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. This statement is not expected to have a material effect on the financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. This statement does not affect the financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS No. 121. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. This statement is not expected to have a material effect on the financial statements.

FUTURE TRENDS

The Company will continue its endeavour to increase revenue, while at the same time taking measures to control costs. For the nine month period ended September 30, 2001 it managed to reduce its operating loss to $0.05/share from $0.07/share a year ago; and for the three month period ended September 30, 2001 its operating loss decreased to $0.01/share from $0.03/share a year ago. However, operating losses may still continue from current domain name registration and E-solutions business. The Company cannot assure that any profit on revenue can occur in the future.

The Company agreed to sell its ISP assets as mentioned earlier in this discussion and analysis. Once this assets sale agreement is closed, the Company will obtain, in addition to the $500,000 security deposit already made by Sino Soft, a cash amount of $200,000 to help fund continuing operations and moderate growth. The Company is also engaged in the process of negotiating for new funds, but no agreement has been signed at this date.

Further, as mentioned earlier, the Company signed an agreement to acquire 100% ownership of Protectserve Pacific Ltd. (PSP). Once an agreement with PSP is closed, the Company will own a second business which has generated a profit during its first six months of operations. Management believes the prospects of continuing profits for PSP look very positive.

The Company also plans to transfer its current business of domain name registration, web design & hosting and e-solutions to its wholly owned subsidiary, Xin Net International Corp., and distribute by way of a dividend Xin Net International Corp. shares to Company shareholders on record at a yet-to-be determined record date. Management intends to file before the end of 2001 a registration statement (SB-2) with the Securities and Exchange Commission for these dividend shares in order to qualify them for trading.

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

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

XIN NET CORP.

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.

/s/ Marc Hung

Date: November 9, 2001

Marc Hung, President