

CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.)  
Form 10QSB  
August 09, 2006

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

---

**FORM 10-QSB**

---

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

For the quarterly period ended June 30, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 0-26559

---

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

---

**Florida**  
(State or other jurisdiction  
of incorporation or organization)

**330-751560**  
(IRS Employer Identification No.)

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

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

---

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes [x] No [ ]**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes [ ] No [x]**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **20,011,792 shares of common stock, par value \$0.001 per share, outstanding as of August 7, 2006.**

**INDEX TO FORM 10-QSB**

	Page No.
<b>PART I</b>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheet - June 30, 2006 (unaudited) and December 31, 2005</u>	4
<u>Consolidated Statements of Operations - Six Months and Three Months Ended June 30, 2006 and 2005 (unaudited)</u>	5
<u>Consolidated Statements of Stockholders' Equity - for the Period from December 31, 2004 to June 30, 2006</u>	6
<u>Consolidated Statements of Cash Flows - Six Months Ended June 30, 2006 and 2005 (unaudited)</u>	7
<u>Consolidated Statements of Deficit - Six Months and Three Months Ended June 30, 2006 and 2005</u>	8
<u>Notes to Consolidated Financial Statements (unaudited)</u>	9-13
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	14
<u>Item 3. Controls and Procedures</u>	17
<b>PART II</b>	
<u>Item 1. Legal Proceedings</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
<u>Item 3. Defaults Upon Senior Securities</u>	19
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	19
<u>Item 5. Other Information</u>	19
<u>Item 6. Exhibits and Reports on Form 8-K</u>	19
<u>Signature Pages</u>	20

Index

PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

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

The financial statements have been prepared by China Mobility Solutions, Inc., a Florida corporation (the "Company"), without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These financial statements include all of the adjustments which, in the opinion of management, are necessary to make a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the audited financial statements at December 31, 2005, included in the Company's Annual Report on Form 10-KSB/A.

Cautionary and Forward Looking Statements

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

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

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

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

(g) litigation with or legal claims and allegations by outside parties;

(h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, successfully develop, manage or market its products and services, and attract or retain qualified executives and technology personnel. The Company's products and services may become obsolete, and government regulation may hinder the Company's businesses. Additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options. There are also other risks inherent in the Company's businesses.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, subject to applicable law. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB for December 31, 2005 and any Current Reports on Form 8-K filed by the Company, as well as the Company's Registration Statement on Form SB-2 declared effective on August 7, 2006.

Index

**CHINA MOBILITY SOLUTIONS, INC. AND  
SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
June 30, 2006 and December 31, 2005**

Stated in U.S. dollars	2006 (Unaudited)	2005 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 5,853,669	\$ 6,138,609
Accounts receivable	4,287	5,870
Prepaid Expenses and Other Current Assets	40,735	235,165
Amount due from related parties	34,474	33,249
<b>Total Current Assets</b>	<b>5,933,165</b>	<b>6,412,893</b>
<b>Investment</b>	<b>1</b>	<b>1</b>
<b>Property and Equipment, Net (Note 2)</b>	<b>7,322</b>	<b>6,248</b>
<b>Goodwill</b>	<b>4,802,520</b>	<b>4,802,520</b>
<b>Other assets</b>	<b>684</b>	<b>701</b>
<b>Total Assets</b>	<b>\$ 10,743,692</b>	<b>\$ 11,222,363</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable and Other Accrued Liabilities	\$ 549,042	\$ 362,013
Deferred Revenue	2,559,362	3,053,282
Convertible Debentures (Note 3)	3,350,000	3,350,000
<b>Total Current Liabilities</b>	<b>6,458,404</b>	<b>6,765,295</b>
<b>Stockholders' Equity</b>		
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	18,492,826	18,442,826
Accumulated Deficit	(14,004,356)	(13,804,409)
Accumulated Other Comprehensive Loss	(223,194)	(201,361)
<b>Total Stockholders' Equity</b>	<b>4,285,288</b>	<b>4,457,068</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 10,743,692</b>	<b>\$ 11,222,363</b>

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

Index

**CHINA MOBILITY SOLUTIONS,  
INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS  
OF OPERATIONS**

**For the six months and three  
months ended June 30, 2006 AND  
2005**

(Unaudited)

Stated in U.S. dollars	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Revenue</b>				
Mobile marketing services	\$ 1,451,107	\$ 1,131,988	\$ 2,892,024	\$ 2,186,501
Tuition fee	10,263	32,630	29,290	107,308
	1,461,370	1,164,618	2,921,314	2,293,809
<b>Cost of revenue</b>				
Mobile marketing services	304,336	310,925	596,169	534,470
Tuition fee	2,260	16,579	6,892	27,018
	306,596	327,504	603,061	561,488
<b>Gross profit</b>	1,154,774	837,114	2,318,253	1,732,321
<b>Expenses</b>				
Advertising and promotion	156,163	268,112	355,334	409,432
Consulting and professional	177,569	11,529	267,548	27,685
Depreciation	749	576	1,360	1,168
Foreign exchange loss (gain)	(31,416)	1,016	(32,726)	4,594
General and administrative	45,961	32,576	82,235	56,893
Interest expense	64,618	-	118,930	-
Investor relations	146,850	87,825	234,675	87,825
Liquidated damages	201,000	-	402,000	-
Rent	287,268	171,334	523,181	329,949
Salaries, wages and sub-contract	272,295	389,569	614,156	690,152
Website development	-	-	-	80,000
	1,321,057	962,537	2,566,693	1,687,698
<b>Operating Income (Loss)</b>	(166,283)	(125,423)	(248,440)	44,623
<b>Other Income</b>				
Interest income	23,935	19,172	48,493	36,414
Other income	-	19	-	19
	23,935	19,191	48,493	36,433
<b>Income (Loss) before minority interest</b>	(142,348)	(106,232)	(199,947)	81,056



<b>Minority interest</b>	-	(5,781)	-	(132,328)
<b>Net Loss Available to Common Stockholders</b>	\$ (142,348)	\$ (112,013)	\$ (199,947)	\$ (51,272)

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

Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
-------------------	-----------	-----------	-----------	-----------

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

Basic and diluted	20,011,792	16,921,670	20,011,792	16,522,057
-------------------	------------	------------	------------	------------

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

Index

**CHINA MOBILITY  
SOLUTIONS, INC.  
AND SUBSIDIARIES  
CONSOLIDATED  
STATEMENT OF  
STOCKHOLDERS'  
EQUITY  
for the period from  
December 31, 2004 to  
June 30, 2006  
(Unaudited)**

<b>Stated in U.S. dollars</b>	<b>Common Shares</b>	<b>Stock Amount At Par Value</b>	<b>Additional Paid In Capital</b>	<b>Accumulated Deficit</b>	<b>Accumulated Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
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 exercised of stock options on February 24, 2005 @\$0.30	495,000	495	148,005				148,500
Issuance of common stock for services rendered	600,000	600	350,700				351,300
Issuance of common stock for cash on exercised of stock options on September 1, 2005 @\$0.40	500,000	500	199,500				200,000
Issuance of common stock for cash on exercised 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 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 loss			\$ (9,181,282)		
Balance, December 31, 2005	20,011,792	\$ 20,012	\$ 18,442,826	\$ (13,804,409)	\$ (201,361) \$ 4,457,068
Fair value of 200,000 warrants issued for services rendered		50,000			50,000
Net loss for the six months ended June 30, 2006			(199,947)	(199,947)	(199,947)
Foreign currency translation adjustments			(21,833)	\$ (21,833)	(21,833)
Total comprehensive loss				\$ (221,780)	
Balance, June 30, 2006	20,011,792	\$ 20,012	\$ 18,492,826	\$ (14,004,356)	\$ (223,194) \$ 4,285,288

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

-6-

Index

**CHINA MOBILITY SOLUTIONS, INC. AND  
SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH  
FLOWS  
For the six months ended June 30, 2006 and 2005**

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

(Unaudited)

Stated in U.S. dollars	2006	2005
<b>Cash flows from operating activities</b>		
Net loss	\$ (199,947)	\$ (51,272)
Adjustments to reconcile net loss to net cash Provided by (Used in) operating activities		
Depreciation and amortization	1,360	1,168
Interest expenses on intrinsic value of the convertible debenture	-	-
Translation adjustments	(21,833)	4,954
Minority interest	-	132,328
Non-cash operating expenses	50,000	87,825
Changes in assets and liabilities		
(Increase)Decrease in accounts receivable	1,583	15,267
(Increase)Decrease in prepaid expenses and other current assets	194,429	(24,867)
(Increase) Decrease in amount due from (to) related parties	(1,225)	127,887
Increase (Decrease) in accounts payable	187,029	(44,458)
Increase (Decrease) in deferred revenue	(493,920)	65,828
Net cash provided by (used in) operating activities	(282,524)	314,660
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,416)	-
	(2,416)	-
<b>Cash flows from financing activities</b>		
Issuance of common stock for cash	-	148,500
Net cash flows provided by financing activities	-	148,500
<b>Increase (Decrease) in cash and cash equivalents</b>	(284,940)	463,160
<b>Cash and cash equivalents - beginning of period</b>	6,138,609	5,380,622
<b>Cash and cash equivalents - end of period</b>	\$ 5,853,669	\$ 5,843,782
Supplemental Information :		
Cash paid for :		
Interest	\$ 115,008	\$ 2
Income taxes	-	-
Non-cash investment:		
Issuance of 2,040,000 common shares for the acquisition of Quicknet	\$ -	\$ -
Issuance of 600,000 common shares for services rendered	-	351,300
Fair value of 200,000 warrants issued for services rendered	50,000	-

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

Index

**CHINA MOBILITY  
SOLUTIONS, INC. AND  
SUBSIDIARIES  
CONSOLIDATED  
STATEMENTS OF DEFICIT  
For the six months and three  
months ended June 30, 2006 AND  
2005  
(Unaudited)**

Stated in U.S. dollars	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Deficit, Beginning of period</b>	\$(13,862,008)	\$ (4,580,215)	\$ (13,804,409)	\$ (4,640,956)
Net Loss Available to Common Stockholders	(142,348)	(112,013)	(199,947)	(51,272)
<b>Deficit, End of period</b>	\$(14,004,356)	\$ (4,692,228)	\$ (14,004,356)	\$ (4,692,228)

-8-

Index

**CHINA MOBILITY SOLUTIONS, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006  
( Unaudited )**

**1. Basis of Presentation**

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. 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 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, 2005 included in its Annual Report on Form 10-KSB.

The unaudited condensed consolidated financial statements include China Mobility Solutions, Inc. and its subsidiaries. All inter-company transactions and accounts have been eliminated.

Certain items have been reclassified to conform to the current period presentation. There is no effect on total results of operations or stockholders' equity.

## 2. Property and Equipment

	June 30,	December 31,
	2006	2005
Equipment	\$ 29,402	\$ 26,986
Library	9,554	9,554
Furniture	10,189	10,189
Total	49,145	46,729
Less :	(41,823)	(40,481)
Accumulated depreciation		
Net book value	\$ 7,322	\$ 6,248

The depreciation expense charged to continuing operations for the three-month and six-month periods ended June 30, 2006 were \$749 (2005: \$576) and \$1,360 (2005: \$1,168), respectively.

## 3. Convertible debentures

On August 15, 2005, the Company completed an offering of 134 units ("Units") for \$3,350,000. Each Unit was sold for \$25,000, consisting of \$25,000 principal amount of senior convertible debentures (the "Debentures"), and one new Series "A" Warrant and one new Series "B" Warrant. The Debentures are initially convertible at \$0.35 per share for 71,429 shares of common stock of the Company; maturing on August 15, 2006 and accruing interest at a rate of not less than 6% per annum equal to the sum of 2% per annum plus the one-month London Inter-Bank Offer Rate ("LIBOR"). The Debentures are subject to redemption at 125% of the principal amount plus accrued interest commencing six months after the effective date (the "Effective Date") of the registration statement. The registration statement has been declared effective by the Securities and Exchange Commission on August 7, 2006.

Each Unit also includes: (i) new Series "A" Warrants exercisable at \$0.44 per share to purchase 71,429 shares of Common Stock of the Company for two years from the Effective Date, but no later than February 15, 2008; and (ii) new Series "B" Warrants exercisable at \$0.52 per share to purchase 71,429 shares of Common Stock for three years from the Effective Date, but no later than February 15, 2009. The new Series "A" and new Series "B" Warrants are subject to redemption by the Company at \$0.001 per Warrant at any time commencing six months and twelve months, respectively, from the Effective Date, provided the average closing bid price of the common stock of the Company equals or exceeds 175% of the respective exercise prices for 20 consecutive trading days.

On January 18, 2006, the Company received a letter (the "Default Notice") from the attorney for Southridge Partners, LP, (the "Lender"), the holder of \$500,000 principal amount of the Company's Senior Convertible Debentures (the "Debenture") stating that the Company was in default of certain transaction agreements (the "Transaction Agreements") issued in connection with the Debenture by virtue of the Company's issuance of registered shares of stock to employees and consultants under a Form S-8 registration statement and the filing of the Form S-8 prior to the date of effectiveness (the "Effective Date") of the Company's SB-2 Registration Statement required under the Registration Rights Agreement (one of the Transaction Agreements).





Index

**CHINA MOBILITY SOLUTIONS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**  
**( Unaudited )**

The Company denied that it was in default of the Transaction Agreements. However, in order to avoid costly litigation, the parties entered into a waiver/settlement agreement on May 4, 2006 (the "Waiver/Settlement Agreement").

In accordance with the terms of the Waiver/Settlement Agreement, the initial conversion price of the Debenture was reduced from \$.35 per share to \$.30 per share, the new Series "A" Warrant exercise price was reduced from \$.44 to \$.38 per share and the new Series "B" Warrant exercise price was reduced from \$.52 to \$.45 per share. In addition, the number of shares of the Company's common stock exercisable upon conversion of each \$25,000 principal amount of Debenture and upon exercise of the new Series "A" and new Series "B" Warrants included in each Unit was increased from 71,429 shares to 83,333 shares for each of the Debenture, Class A Warrants and Class B Warrants, or an aggregate of 250,000 shares per unit.

The Lender waived the S-8 Default set forth in the Default Notice and the Company agreed not to file any additional S-8 Registration Statements prior to 45 days after the Effective Date of the Registration Statement.

The Company has recorded \$201,000 and \$402,000 as expense for estimated liquidated damages, 2% of the outstanding principal amount, in the statement of operations for the three-month and six-month periods ended June 30, 2006.

As of June 30, 2006, interest payable of \$30,703 and liquidated damages of \$268,500 have been recorded as part of the accounts payable.

#### **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 six-month periods ended June 30, 2006 and 2005:

	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
Net income (loss) for the period	(142,348)	(112,013)	(199,947)	(51,272)
Weighted-average number of shares outstanding	20,011,792	16,921,670	20,011,792	16,522,057
Effective of dilutive securities :				

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Dilutive options - \$0.30	-	-	-	-
Dilutive warrants new Series "A" - \$0.38	-	-	-	-
Dilutive warrants new Series "B" - \$0.45	-	-	-	-
Dilutive potential common shares	-	-	-	-

Adjusted weighted-average shares and assumed conversions	20,011,792	16,921,670	20,011,792	16,522,057
--	------------	------------	------------	------------

Basic income (loss) per share attributable to common shareholders	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
---	-----------	-----------	-----------	-----------

Diluted income (loss) per share attributable to common shareholders	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
---	-----------	-----------	-----------	-----------

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

-10-

---

Index

**CHINA MOBILITY SOLUTIONS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**  
**( Unaudited )**

**5. Share Purchase Warrants**

On May 5, 2006, the Company granted 200,000 Series "C" warrants at an exercise price of \$0.45 each to a consultant for their investor relations services expiring on May 5, 2010. The fair value of the warrants granted was estimated at \$0.25 by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 144%, risk-free interest rates of 4.31%, and expected lives of four years.

During the six-month period ended June 30, 2006, 10 Series "B" warrants which entitle the holders to purchase a common share of the Company at \$2.25 each expired on March 31, 2006.

As of June 30, 2006, 134 new Series "A" warrants were outstanding which entitle the holders to purchase 83,333 common shares of the Company at \$0.38 each within two years from the Effective Date but no later than February 15, 2008. 134 new Series "B" warrants were outstanding which entitle the holders to purchase 83,333 common shares of the Company at \$0.45 each within three years from the Effective Date but no later than February 15, 2009. 200,000 Series "C" warrants were outstanding which entitle the holders to purchase 200,000 common shares of the Company at \$0.45 each expiring on May 5, 2010.

**6. Stock Options**

The Company filed S-8 for its 2006 non-qualified Stock Option Plan with Securities Exchange Commission on November 3, 2005. The total number of shares of the Company available for grants of stock options and common stock under the Plan shall be 4,000,000 common shares. Stock options may be granted to non-employees and directors of the Company or other persons who are performing or who have been engaged to perform services of special importance to the management, operation or development of the Company. All stock options granted hereunder must be granted within ten years from the earlier of the date of this Plan is adopted or approved by the Company's shareholders. No stock option granted to any employee or 10% shareholder shall be exercisable after the expiration of ten years from the date such non qualifying stock option ("NQSO") is granted. The Company, in its discretion, may provide that an option shall be exercisable during such ten year period or during any lesser period of time. At the discretion of the Company, through the delivery of fully paid and non-assessable common shares, with an aggregate fair market value on the date the NQSO is exercised equal to the option price, provided such tendered shares have been owned by the Optionee for at least one year prior to such exercise.

Options outstanding at June 30, 2006 were 660,000 with an option exercise price of \$0.30 per share. No options were granted, exercised, canceled or forfeited during the six-month period ended June 30, 2006. The weighted average remaining contractual life is 1.06 years.

Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. The intrinsic value method of accounting resulted in compensation expense for stock options to the extent that the exercise prices were set below the fair market price of the Company's stock at the date of grant.

As of January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques

previously utilized for options in footnote disclosures required under SFAS No. 123, "Accounting for Stock Based Compensation", as amended by SFAS No. 148, "Accounting for Stock Based Compensation Transition and Disclosure".

Since the Company did not issue stock options to employees during the six months ended June 30, 2006 or 2005, there is no effect on net loss or earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation. When the Company issues shares of common stock to employees and others, the shares of common stock are valued based on the market price at the date the shares of common stock are approved for issuance.

## **7. Related Party Transactions**

During the three-month and six-month periods ended June 30, 2006, the Company paid \$14,640 (2005: \$5,194) and \$29,114 (2005: \$10,389), respectively, to a director and an officer as wages and benefits.

As of June 30, 2006, the Company has an amount of \$22,422 (December 31, 2005: \$21,443) due from a company with a common ex-director without interest or specific terms of repayment.

As of June 30, 2006, the Company advanced \$9,951 (December 31, 2005: \$8,485) to a director of the Company for expenses to be incurred on behalf of the Company.

## **8. New Accounting Pronouncements**

There have been no new pronouncements issued since June 30, 2006 that are expected to have a material impact on the Company's financial statements.

Index

**CHINA MOBILITY SOLUTIONS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**  
**( Unaudited )**

**9. Segment and Geographic Data**

The Company's reportable segments are geographic areas and two operating segments, the latter comprised of mobile communication and ESL education. 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.

A. By geographic areas	China	Canada	Other	Total
Three months ended June 30, 2006				
Revenue from continuing operations	\$ 1,451,107	\$ 10,263	\$ -	\$ 1,461,370
Operating income (loss)	458,566	(34,727)	(590,122)	(166,283)
Total assets	4,206,698	62,602	6,474,392	10,743,692
Depreciation	-	749	-	749
Interest income	7,770	282	15,883	23,935
Interest expense	-	19	64,599	64,618
Investment in equity method investee	-	-	1	1
Three months ended June 30, 2005				
Revenue from continuing operations	\$ 1,131,988	\$ 32,630	\$ -	\$ 1,164,618
Operating income (loss)	4,743	(37,898)	(92,268)	(125,423)
Total assets	6,744,355	124,682	315,136	7,184,173
Depreciation	-	576	-	576
Interest income	19,165	7	-	19,172
Interest expense	-	-	-	-
Investment in equity method investee	-	-	1	1
A. By geographic areas				
Six months ended June 30, 2006				
Revenue from continuing operations	\$ 2,892,024	\$ 29,290	\$ -	\$ 2,921,314
Operating income (loss)	848,341	(73,885)	(1,022,896)	(248,440)
Total assets	4,206,698	62,602	6,474,392	10,743,692
Depreciation	-	1,360	-	1,360

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Interest income	14,073	679	33,741	48,493
Interest expense	-	19	118,911	118,930
Investment in equity method investee	-	-	1	1

Six months ended June 30, 2005

Revenue from continuing operations	\$ 2,186,501	\$ 107,308	\$ -	\$ 2,293,809
Operating income (loss)	261,926	(28,702)	(188,601)	44,623
Total assets	6,744,355	124,682	315,136	7,184,173
Depreciation	-	1,160	8	1,168
Interest income	36,403	11	-	36,414
Interest expense	-	-	-	-
Investment in equity method investee	-	-	1	1

-12-

---

Index

**CHINA MOBILITY SOLUTIONS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**  
**( Unaudited )**

B. By operating segments	Mobile communications	ESL education	Other	Total
For the three months ended June 30, 2006				
Revenue from external customers	\$ 1,451,107	\$ 10,263	\$ -	\$ 1,461,370
Intersegment revenue	-	-	-	-
Interest revenue	6,550	282	17,103	23,935
Interest expense	-	-	64,618	64,618
Depreciation	-	448	301	749
Segment operation profit (loss)	457,739	(21,826)	(602,196)	(166,283)
Segment assets	3,657,778	59,601	7,026,313	10,743,692
For the three months ended June 30, 2005				
Revenue from external customers	\$ 1,133,972	\$ 32,630	\$ (1,984)	\$ 1,164,618
Intersegment revenue	-	-	-	-
Interest revenue	8,970	7	10,195	19,172
Interest expense	-	-	-	-
Depreciation	-	535	41	576
Segment operation profit (loss)	2,828	(14,644)	(113,607)	(125,423)
Segment assets	2,446,380	121,847	4,615,946	7,184,173

B. By operating segments	Mobile communications	ESL education	Other	Total
For the six months ended June 30, 2006				
Revenue from external customers	\$ 2,892,024	\$ 29,290	\$ -	\$ 2,921,314
Intersegment revenue	-	-	-	-
Interest revenue	12,853	679	34,961	48,493
Interest expense	-	-	118,930	118,930
Depreciation	-	884	476	1,360
Segment operation profit (loss)	845,469	(34,211)	(1,059,698)	(248,440)
Segment assets	3,657,778	59,601	7,026,313	10,743,692

For the six months ended  
June 30, 2005

Edgar Filing: CHINA MOBILITY SOLUTIONS, INC. (formerly Xin Net Corp.) - Form 10QSB

Revenue from external customers	\$ 2,186,501	\$ 107,308	\$ -	\$ 2,293,809
Intersegment revenue	-	-	-	-
Interest revenue	8,970	11	27,433	36,414
Interest expense	-	-	-	-
Depreciation	-	1,077	91	1,168
Segment operation profit (loss)	261,088	13,591	(230,056)	44,623
Segment assets	2,446,380	121,847	4,615,946	7,184,173

-13-

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 consolidated financial statements and related notes. 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," "anticipate," "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.

### CRITICAL ACCOUNTING POLICIES

Our discussion and analysis is 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 revenue recognition, accounts receivable and allowance for doubtful accounts, intangible and long-lived assets, and income taxes. 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.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

### RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2006 AS COMPARED TO THE QUARTER ENDED JUNE 30, 2006

Revenues. The Company had revenues of \$1,461,370 in the second quarter of 2006 compared to \$1,164,618 in the second quarter of 2005, an increase of 25.5%. The Company's revenue in the second quarter of 2006, were in the form of net sales of Mobile marketing services (Quicknet) of \$1,451,107 and tuition fees (Windsor) of \$10,263, as compared with mobile market sales of \$1,131,988 and tuition fees of \$32,630 in the second quarter of 2005. The Company incurred operating expenses of \$1,321,057 in the second quarter of 2006 compared to operating expenses of \$962,537 in the second quarter of 2005, an increase of 31.2%. The Company had an operating loss of \$166,283 in the second quarter of 2006, and a net loss of \$142,348 compared to an operating loss of \$125,423 and a net loss of \$112,013 in the second quarter of 2005.

#### Business Segments

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

Mobile marketing services	\$ 1,451,107
Windsor - ESL Education	\$ 10,263

The cost of revenue in each segment was:

Mobile marketing services	\$	304,336
Windsor	\$	2,260

The gross profit from each of the business segments was:

Mobile	\$	1,146,771
Windsor	\$	8,003
	\$	1,154,774

Index

Net Income/Loss per share: The per share earnings for the second quarter of 2006 was (\$0.01), and the per share earnings for the second quarter of 2005 was (\$0.01).

The Company expects the trend of losses to continue at about the same rate in the immediately succeeding periods.

**LIQUIDITY AND CAPITAL RESOURCES**

**Changes in Financial Condition June 30 2006 and Compared to December 31, 2005.**

At the end of the second quarter of 2006, Company had assets of \$10,743,692 compared to \$11,222,363 at year-end 2005. The current assets totaled \$5,933,165 at the end of the second quarter of 2006 compared to \$6,412,893 at 2005 year-end. Total current liabilities at the end of the second quarter of 2006 were \$6,458,404 compared to \$6,765,295 at 2005 year-end. At June 30, 2006, the Company had \$ 5,853,669 in cash compared to \$6,138,609 at year-end 2005.

The Company had cash capital of \$5,853,669 at the quarter ended June 30, 2006, which will be used to fund continuing operations. 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 quarter ended June 30, 2006, it had \$5,933,165 in current assets and current liabilities of \$6,458,404, and a working capital deficit of \$525,239.

The Company's cash on hand decreased from \$6,138,609 at December 31, 2005 to \$5,853,669 at June 30, 2006. This was primarily a result of a decrease in cash used in operating activities of \$282,524 resulting from a net loss of \$199,947 and a decrease in deferred revenue of \$493,920, offset, in part, by a decrease in prepaid expenses and other current assets of \$194,429 and increase in accounts payable of \$187,029.

As of July 20, 2006, the Company had approximately \$5.6 million cash on hand. The Debentures mature on August 15, 2006, and the Company intends to repay all of the \$3,350,000 of Debentures which are not converted. The Company has paid interest on the Debentures on a current basis. The Settlement Agreement entered into by the Company on May 4, 2006, provided for an increase in the number of shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants. The Company believed that the offer of such additional shares was exempt from registration under the Securities Act and under applicable state securities laws pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. However, questions have been raised by the SEC as to the availability of the claimed exemptions. In the event the Company is found to have offered such shares in a transaction for which exemption from registration was not available, such shares may have been offered in violation of the registration provisions of Section 5 of the Securities Act. In that event, the investors may have rescission rights to recover their purchase price, plus interest and attorney's fees, depending upon their state of residence. If an investor sued for rescission, the Company does not believe that any attorney's fees or interest penalties would have an effect on the Company's financial condition.

Index

**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. However, if losses occur it may 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, or 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 businesses in Canada and grow the new business of mobile marketing 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.

**Future Trends:**

For the Education Services side, we have operated for over two years now, the competition is very fierce in the market. The Canadian government has tightened its budget on English training for new immigrants, which lead to a termination of government funding for Windsor, and this change had negative effects to the revenue of Windsor Education Academy.

The Company has experienced growth in revenues in its Quicknet services, and it anticipates future growth in revenues although China must always be viewed as a highly competitive market where profitability may be difficult to achieve or sustain.

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 the design and operation of our disclosure controls and procedures ("Disclosure Controls") as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation ("Evaluation") was performed by our Chief Executive Officer and Principal Accounting Officer, Angela Du, ("CEO") and Ernest Cheung, our Principal Financial Officer ("CFO"). In this section, we present the conclusions of our CEO and CFO based on and as of the date of the Evaluation, with respect to the effectiveness of our Disclosure Controls and Procedures.

Based upon the Evaluation, our CEO and CFO determined that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within time periods specified in the Commission's rules and forms. Our CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Exchange Act is accumulated and communicated to the issuer's management including the CEO and CFO, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal controls over financial reporting identified in connection with the Evaluation that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect the Company's internal controls over our financial reports.

Index

## **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, for \$88,270 for breach of warranty and a claim under a guarantee. Our lawyer submitted a Notice of Motion to the plaintiff's lawyer on March 7, 2005. There has been no further response from the plaintiff's lawyer. Regardless of the outcome of this motion, the Company intends to vigorously defend the suit.

No director, officer or affiliate of ours and no owner of record or beneficial owner of more than 5% of our securities, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

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

None



Index

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

On January 18, 2006, China Mobility Solutions, Inc. (the "Company") received a letter (the "Default Notice") from the attorney for Southridge Partners, LP, (the "Lender") the holder of \$500,000 principal amount of the Company's Senior Convertible Debentures (the "Debenture") stating that the Company was in default of certain transaction agreements (the "Transaction Agreements") issued in connection with the Debenture by virtue of the Company's issuance of registered shares of stock to employees and consultants under a Form S-8 registration statement and the filing of the Form S-8 prior to the date of effectiveness (the "Effective Date") of the Company's SB-2 Registration Statement required under the Registration Rights Agreement (one of the Transaction Agreements).

The Company denied that it was in default of the Transaction Agreements; however, in order to avoid costly litigation, the parties entered into a waiver/settlement agreement as of May 4, 2006 (the "Waiver/Settlement Agreement").

The Debenture was issued on August 15, 2005, as part of a \$3,350,000 offering of units. Under the original terms of the Debenture, each unit included \$25,000 principal amount of Debentures, initially convertible at \$.35 per share, matured on August 15, 2006 and accrued interest at not less than 6% per annum equal to the sum of 2% per annum plus the one month LIBOR rate. Each unit also included Class A Warrants exercisable at \$.44 per share and Class B Warrants exercisable at \$.52 per share.

In accordance with the terms of the Waiver/Settlement Agreement, the initial conversion price of the Debenture was reduced from \$.35 per share to \$.30 per share, the Class A Warrant exercise price was reduced from \$.44 to \$.38 per share and the Class B Warrant exercise price was reduced from \$.52 to \$.45 per share. In addition, the number of shares of the Company's common stock exercisable upon conversion of each \$25,000 principal amount of Debenture and upon exercise of the Class A and Class B Warrants included in each Unit was increased from 71,429 shares to 83,333 shares for each of the Debenture, Class A Warrants and Class B Warrants, or an aggregate of 250,000 shares per unit.

The Lender waived the S-8 Default set forth in the Default Notice and the Company agreed not to file any additional S-8 Registration Statements prior to 45 days after the Effective Date of the Registration Statement.

**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 May 10, 2006 to report the entry into a Waiver/Settlement Agreement with respect to the alleged default under the Company's Senior Convertible Debenture.

Exhibits:

Copies of the following documents are included as exhibits to this quarterly report pursuant to Item 601 of Regulation S-B.

<b>EXHIBIT INDEX</b>	
<b>Exhibit Number</b>	<b>Description</b>
31.1	<u>Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification pursuant to 18 V.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

[Index](#)

**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.

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

Date: *August 7, 2006*      By:      */s/ Angela Du*  
*Angela Du*  
*Chief Executive Officer*  
*and Principal Accounting*  
*Officer*

Date: *August 7, 2006*      By:      */s/ Ernest Cheung*  
*Ernest Cheung*  
*Principal Financial*  
*Officer*