

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

Form 10KSB/A

May 12, 2006

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**SECURITIES EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-KSB/A**

**AMENDMENT #4**

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**FOR THE YEAR ENDED DECEMBER 31, 2004**

**General Form for Registration of Securities of Small Business Issuers**

**Commission file number 0-26559**

**CIK No. 0001082603**

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**CHINA MOBILITY SOLUTIONS, INC.**

(Exact name of registrant as specified in this charter)

**XIN NET CORP.**

(Former Name)

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**Florida**

(State of other jurisdiction of incorporation or  
organization)

**330-751560**

(I.R.S. Employer Identification No.)

**#900 - 789 West Pender Street**

**Vancouver, B.C.**

**Canada V6C 1H2**

(Address of principal executive offices, including zip code)

**(604) 632-9638**

(Registrant's telephone number, including area code)

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Securities Registered to be Pursuant to Section 12(b) of the Act: **None**

Securities Registered to be Pursuant to Section 12(g) of the Act: **Common Stock \$.001 Par Value**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. **Yes [X]**  
**No [ ]**

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

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

Transitional Small Business Disclosure Format: **Yes [ ] No [X]**

Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2004:  
**\$5,491,173 at \$0.51 per share.**

Number of outstanding shares of the registrant's no par value common stock, as of March 31, 2005: **15,826,670.**

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[RIDER X]

**CHINA MOBILITY SOLUTIONS, INC.**  
**AND SUBSIDIARIES**  
**ANNUAL REPORT ON FORM 10-KSB/A**  
**AMENDMENT NO. 4**  
**PERIOD ENDED DECEMBER 31, 2004**

**EXPLANATORY PARAGRAPH**

This Form 10-KSB/Amendment No. 4 for China Mobility Solutions, Inc. (the “Company”) is identical to Amendment No. 3 except for this Explanatory Paragraph and was filed in response to SEC comments concerning Note 3, the Company’s entering into an agreement to acquire the remaining interest of Beijing Quicknet Telecommunications Corp. Ltd.

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**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS**

**(a) General Description and Development of Business.**

**PREVIOUS HISTORY**

On September 6, 1996, the Company was incorporated under the laws of the State of Florida under the name of Placer Technologies, Inc. It conducted a small public offering of 200,000 shares @ \$0.25 per share to achieve \$50,000 in capital. In December 1996 a Rule 15c2-11 filing resulted in trading approval on the OTCBB.

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

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

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

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

In June 2004, the Company changes its name to China Mobility Solutions, Inc. concurrent with a one-for-three reverse split.

**CORPORATE OVERVIEW**

China Mobility Solutions, Inc. structure showing its subsidiaries is as follows, with the jurisdiction of incorporation of each subsidiary included in parentheses:

**China Mobility Solutions, Inc.**  
(Florida, USA)

Infornet Investment Corp. (100% Owned) (BC., Canada)	Infornet Investment Ltd. (100% Owned) (Hong Kong)
Windsor Education Academy Inc. (100% Owned) (BC., Canada)	
Xinbiz Corp. (British Virgin Islands) (100% Owned) (Dormant)	Xinbiz Ltd. (Hong Kong) (Xinbiz Corp. 100% owned) (Dormant)

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

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Through our wholly owned subsidiary, InforNet Investment Ltd. (Hong Kong), the Company formed a joint venture with Xin Hai Technology Development Ltd. for upgrading telecommunication technology and services in the PRC. This evolved into an internet-focused service provider and e-commerce solutions business, which was subsequently sold in 2001.

The Company decided in May 2001 to focus its business in China on domain name registration and web-hosting services, and to discontinue Internet access provision services as soon as practicable. On June 22, 2001 the Company entered into an agreement to sell its ISP assets (Xin Hai). The price for the sale was \$700,000 (USD) payable to in Renminbi at the official exchange rate. As of December 31, 2003, \$500,000 had been received for the transaction. A loss provision of \$200,000 was made against the balance of the sales price as the Company has determined that the purchaser will not be able to pay the remaining balance.

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

In February, 2003, the Company signed an agreement to sell the Company's China assets (Domain name registration) to a subsidiary of Sino-i.com Limited, a Hong Kong Stock Exchange listed company for a total consideration of Rmb 20 million (approx. US\$ 2.4 million). The Company has received all of the purchase price, and the divestiture was completed in 2004.

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**Education Business**

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

**Education and Training**

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

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

**Quicknet Acquisition in 2004**

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

The Company acquired 49% of Beijing Quicknet for a price of US\$3,060,000 (three million and sixty thousand US dollars) in form of issuing 6,120,000 (six million one hundred and twenty thousand) common shares of the Company's stock at a deemed price of US\$0.50 per share. The remaining 2% will be conveyed for US\$100 when either of the following is completed to the satisfaction of the Company (1) the appropriate government ministry in China approving the transfer of the 2%, or (2) an acceptable legal mechanism for the transfer of the 2% ownership is arranged. Furthermore, the Company has the option to acquire the remaining 49% of Beijing Quicknet within 2 years from the Closing Date. If the Company exercises the option to purchase the remaining 49% of Beijing Quicknet within first year from the Closing Date, the purchase price will be US\$4,000,000 (four million US dollars); if the Company exercises the option to purchase the remaining 49% of Beijing Quicknet within the second year from the Closing Date, the purchase price will be US\$5,000,000 (five million US dollars). The purchase price will be in the form of a combination of cash and the issuance of common shares of the Company.

The Company has the right to appoint all of the directors of Beijing Quicknet.



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**Discontinued Internet Services**

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

Due to the continued loss on operations (\$254,035 in 2002). In 2003, the Company entered into an Agreement to sell the domain name registration business to China Enterprise an ASP for about \$2,400,000, which sale was completed in 2004. We are treating the DNS business as discontinued operations at this time, as China Enterprise is in full control of the assets.

**CURRENT BUSINESS**

**Mobile Solutions for Businesses in China**

The Company is focusing on providing mobile solutions to many diverse corporations across China. With its rapidly growing client base, the Company hopes to become one of the largest providers of mobile business solutions in China. The first product launched is mobile marketing solution for enterprises.

**Education and Training**

The Company is currently offering English as a Second Language (ESL) and related courses through Windsor Education Academy in the Richmond campus. The Company owns 100% of Windsor, a B.C. company.

**MARKETING**

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

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**News Advertising Service**

On July 3, 2003, the Company acquired 51% of Dawa Business Group Inc. ("Dawa") in exchange for 49% of our subsidiary, Windsor Education Academy Inc. ("Windsor"). The Company closed its Dawa operations abandoned any interest in Dawa and received back its 49% of Windsor Education Academy, Inc.

**PRODUCTS, SERVICES, MARKETS, METHODS OF DISTRIBUTION**

**Mobile Solutions for Quicknet in China**

(1) Products and services:

The first mobile solution launched by the Company is mobile marketing. Mobile marketing is the use of the mobile medium as a communications and entertainment channel between a brand and an end-user. Mobile marketing is the only personal channel enabling spontaneous, direct, interactive and/or targeted communications, any time, any place. Mobile marketing can be used in a wide variety of ways:

- o For customer acquisition
- o For customer retention
- o For loyalty building
- o As a sales promotion tool
- o To support product launches
- o To raise brand awareness
- o For internal communications
- o As a redemption /coupon tool
- o For direct marketing
- o As an effective business to business communications vehicle
- o As an additional revenue stream
- o To be able to offer time / location specific offers
- o As a channel for delivering ring tones and logos

As China has over 334 million mobile phone subscribers by the end of 2004, and management believes there will be more demand from the enterprises to utilize mobile phones as a new media for their marketing.

(2) Method of distribution and Marketing: Mobile Solutions

The Company will use four outlets to approach the market for its mobile business solutions: agents, mobile carriers, in-house sales staffs and sales support branches.

**Education and Training**

(1) Educational Product and Service

Windsor provides ESL (English as a Secondary Language) and related courses in Canada. In a recent study conducted by the OECD (Organization of Economic Cooperation and Development) and the UNESCO (United Nations Educational Scientific and Cultural Organization) titled "Financing Education - Investments and Returns", attributed education as a key ingredient in a country's economic growth. The study also examined sources of funding and found that 44% of educational expenditure for China came from private sources compared to an OECD average of 12%. Our first acquisition, Windsor is government certified. The Company will help Windsor to expand locally as well as

internationally into China and Southeast Asia. The Company will look for further companies that fit this profile with the goal of introducing foreign accredited programs into the China market. For the past several years, supplementary education had become a multi-billion dollar business in China, the most popular being Foreign Schools, English Training, Data Processing, Accounting and a variety of other programs.

Started several years ago, this trend is still ascending and with the integration of China into the world community as well as the growth in personal disposable income, we expect the growth to continue for a substantial period of time.

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(2) Method of Distribution and Marketing: Education

The Company will use the printed media as well as recruitment agents to attract students for its education business. Word of mouth is also an important endorsement. Windsor is also a British Columbia Provincial Government endorsed ESL provider, receiving students from government programs, where the fee is paid by the government. Windsor is continuously working to improve its recognition for quality and service with the British Columbia Provincial Government.

**EMPLOYEES OF SUBSIDIARIES**

At the end of December 31, 2004, QuickNet had approximately 83 employees. About 27% are technical supports, 26% are sales and marketing, 17% are R&D and the rest are administrative personnel. The actual number of employees changed during the year and will change according to the expansion of the Company in the future.

At the end of December 31, 2004, Windsor had approximately eleven employees, consisting of eight full and part time teachers and three administrative personnel. The key to success is the ability to attract students either publicly or privately funded. The number of employees will change as the student body changes and there is no collectively bargaining unit at the academy.

**DEPENDENCE ON CLIENT BASE**

For the mobile solutions business, we have sign contracts with a number of clients for varying types of marketing. The Company is relying on its agents, mobile carriers, in house sales staffs and sales supporting branches as well as media and other marketing channels to increase its client base.

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

Backlog of Orders: None.

Government Contracts: Windsor Education received a number of ESL students from the Provincial Government of British Columbia under government programs, but there is no commitment beyond the individual student's referral and subsidiary. All government programs involving Windsor ended March 31, 2005.

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**COMPETITIVE CONDITIONS**

**Mobile Solutions**

The Chinese economy has been among the fastest growing in the world for the past several years. China's economy withstood the effect of SARS and grew 9.1% in 2003. Growth matches that level in 2004 as well. China has one of the largest and fastest-growing telecom markets in the world, with the mobile phone sector in particular having become the world's number one with more than 334 million by the end of 2004. Mobile solutions, which use mobile phone as a new media, has created a large market in China. There are two types of markets in this field: the individual market and the corporate market. Competition on individual market is fiercer than the corporate market since the individual market is much saturated thus become less lucrative. Beijing an early bird in corporate market and possessed by nearly 500,000 corporate data base from previous operation, the Company will have more growth potential than if the Company targeted the highly competitive consumer mobile market.

**Education Services**

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

**CHINA MOBILITY SPONSORED RESEARCH AND DEVELOPMENT**

None.

**COMPLIANCE WITH RELATED LAWS AND REGULATIONS**

In China, the Company relies on the advice of Chinese legal counsel to maintain compliance with all laws, rules, and regulations in China. The telecom industry is subject to extensive government regulation, which regulations have been changing rapidly, and there is no assurance that the Company will not be adversely impacted by such regulations in the future.

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

(a) Local regulations

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

(b) National regulations

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

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

(c) Parents and Subsidiaries

*Parent:*

China Mobility Solutions, Inc., a Florida corporation

*Subsidiaries:*

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

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

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

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

WINDSOR EDUCATION ACADEMY, INC. (100% owned British Columbia Corp.)

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

The Company, through Infornet (Hong Kong) is the holder of 49% of Beijing Quicknet.

**BUSINESS SEGMENTS**

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

Mobile marketing services	\$	1,871,960
Tuition fees		298,806
The cost of revenue in each segment was:		
Mobile marketing services	\$	412,222
Tuition fees		61,013

The gross profit from each of the business segments was:

Mobile marketing services	\$	1,459,738
Tuition fees		237,793
Total	\$	1,697,531

The Company also carries deferred revenue of \$2,105,165 for its SMS business in China and \$6,533 for its education and training business.

Note:

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

The Company acquired 49% of Beijing Quicknet for a price of US\$3,060,000 (three million and sixty thousand US dollars) in form of issuing 6,120,000 (six million one hundred and twenty thousand) common shares of the Company's stock at a deemed price of US\$0.50 per share. The remaining 2% will be conveyed for US\$100 when either of the following is completed to the satisfaction of the Company (1) the appropriate government ministry in China approving the transfer of the 2%, or (2) an acceptable legal mechanism for the transfer of the 2% ownership is arranged. Furthermore, the Company has the option to acquire the remaining 49% of Beijing Quicknet within 2 years from the Closing Date. If the Company exercises the option to purchase the remaining 49% of Beijing Quicknet within first year from the Closing Date, the purchase price will be US\$4,000,000 (four million US dollars); if the Company exercises the option to purchase the remaining 49% of Beijing Quicknet within the second year from the Closing Date, the purchase price will be US\$5,000,000 (five million US dollars).

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The Company has the right to appoint all of the directors of Beijing Quicknet per an agreement.

**ITEM 2. DESCRIPTION OF PROPERTIES**

China Mobility Solutions, Inc. currently maintains a leased office at: #900- 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2 (telephone number is 1-604-632-9638). It also has a leased an office, as part of the joint venture, in Beijing at Room 1858, New Century Office Tower, No. 6, Southern Road Capital Gym, Beijing 100044, China. Windsor Academy currently rents spaces at 7900 Alderbridge Way, Unit 100, Richmond, BC, Canada.

(a) Real Estate: None

(b) Equipment, library, and furniture at December 31, 2004: \$6,549

**ITEM 3. LEGAL PROCEEDINGS**

On Feb.7, 2005, China Mobility Solutions, Inc. was sued by Sino-I Technology Limited for \$88,270 for breach of warranty and a claim under a guarantee.

Our lawyer has submitted a Notice of Motion to the plaintiff's lawyer on March 7, 2005 and is seeking an extension of response date. The Company intends to vigorously defend the suit.

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

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

The following matters were submitted during the fiscal year covered by this report to a vote of security holders of China Mobility Solutions, Inc., through the solicitation of proxies:

1. To change the Company's name to China Mobility Solutions, Inc.
2. To authorize a reverse split of the Company's common stock on a one for five basis.

The items were approved by a majority of the shares issued and outstanding as of the date of the proxy.



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(a) The Company common stock is traded on the Bulletin Board under the trading symbol CHMS. The following table sets forth high and low bid prices of the its common stock for years ended December 31, 2003 and December 31, 2004 as follows:

	<b>Bid (U.S. \$)</b>	
	<b>HIGH</b>	<b>LOW</b>
<b>2004</b>		
First Quarter	0.27	0.10
Second Quarter	1.01	0.09
Third Quarter	0.65	0.16
Fourth Quarter	0.68	0.18
<b>2003</b>		
First Quarter	0.34	0.04
Second Quarter	0.29	0.04
Third Quarter	0.29	0.10
Fourth Quarter	0.20	0.09

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

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

(b) As of December 31, 2004, China Mobility Solutions, Inc. had approximately 5,000 shareholders of record of the common stock.

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

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The information presented here should be read in conjunction with China Mobility Solution's consolidated financial statements and related notes.

## **EXECUTIVE SUMMARY**

In early 2004, the Company acquired 49% of a mobile solution provider in China, Beijing Quicknet Telecommunications Corp. Ltd. (Beijing Quicknet), from non-affiliates and has options to acquire the other 51%. In 2004, the Company has changed its name to China Mobility Solutions Inc. On June 30, 2004, the Company has entered into agreement to dispose its ownership in Dawa Business Group Inc. and regain 100% ownership of Windsor Education Academy Inc. The Company has shifted its focus from solely education to mobile solution industry for enterprises in China. China is the world fastest-growing telecom market. China is the world's number one cellular market, with over 320 million mobile phone users already surpassing the U.S. subscriber base of less than 170 million, as reported by the Cellular Telecommunications & Internet Association. The Chinese SMS market alone accounts for 1/3rd of the world's traffic. SMS means sending and receiving brief text messages via mobile phones. SMS can be used for everything from promotional marketing to mobile banking. The Company's mobile marketing solution is targeted to enterprises to market through SMS to mobile phone users.

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**WORKING CAPITAL NEEDS**

On the Mobile Solution Services side, the working capital needs arise primarily from: the need for capital to acquire the rest of the ownership of Quicknet in; expanding existing capacity of Quicknet services, to open more offices in other major cities, to launch new value-added services, to acquire other companies that will complement the services offered by us.

On the education services side, the Company will use the working capital to explore the local market, launch new courses, set up new market campaign, sign up with Universities to offer courses in order to get University credits, sign up with more agents, both domestic and international agents and provide some marketing materials and financial support to those agents.

**FUTURE STRATEGY**

The Company accumulated nearly 500,000 corporate leads from its previous domain name registration and web hosting services in China. Acquisition of an interest in Beijing Quicknet gives the Company an opportunity to capitalize in this rapidly growing market, and it also gives the chance for Beijing Quicknet to solicit these corporate leads to attempt to generate more revenue. Quicknet plans to grow organically by launching more products, but may also grow by acquiring other companies that will complement services offered by us.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company had cash capital of \$5,380,622 at year-end 2004. The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. Other than cash capital, its other assets would be illiquid.

At the fiscal year-end it had \$5,466,574 in current assets and current liabilities of \$2,452,522.

The cash capital at the end of the period of \$5,380,622 will be used to fund continuing operations. The sale of the ChinaDNS assets have provided more than US\$2 million in working capital, and the continuing operations have provided more than U\$1.9 million in working capital in 2004.

The Company has revenues from its mobile marketing services Beijing QuickNet and tuition fees from: Windsor Education Academy ("Windsor") and at this time. However capital from private placements, borrowing against assets and/or from warrants being exercised by warrant holders, may be required to fund future operations. The Series "A" and Series "B" warrants of the Company expired on March 31, 2005. There were 1,155,000 options outstanding at December 31, 2004 at the option price of \$0.30 per share.

**Changes in Financial Condition:**

At December 31, 2004, the Company's assets were \$6,447,030 compared to \$6,320,612 at December 31, 2003. The current assets totaled \$5,466,574 at 2004 year-end compared to \$5,869,782 at 2003 year-end. The sale of the China Internet business "ChinaDNS" has been completed; ChinaDNS' assets of \$2,533,838 were disposed. The current continuing operations had brought in \$2,170,766 revenue by December 31, 2004, compared to \$280,723 in year 2003. There is deferred revenue of \$2,111,698 at December 31, 2004 compared to \$28,354 in 2003. Net cash provided by continuing operations was \$1,924,019 at December 31, 2004. The Company had \$ 5,380,622 in cash by the year-end compared to \$3,303,591 a year ago. These changes were caused mainly by the acquisition of Beijing QuickNet, a mobile solution provider in China in June 2004. Total liabilities at year-end 2004 were \$2,452,522 compared to \$5,870,451 at 2003 year-end. Deferred

revenue has been increased because of the acquisition of QuickNet; disposition of ChinaDNS and completion of the disposition of ISP business.

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The Company issued 6,120,000 common shares on June 23, 2004 to acquire QuickNet. The Company completed a reverse stock split of 3:1 on June 24, 2004. Total outstanding common shares as of December 31, 2004 were 15,826,670.

**Need for Additional Financing:**

The Company believes it has sufficient capital to meet its short-term cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. But it will have to seek loans or equity placements to cover longer term cash needs to continue operations and expansion.

No commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover operations expenses.

If future revenue declines, or operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through the sale of assets it has, or enter into the sale of stock for additional capital, none of which may be feasible when needed. The Company has no specific management ability, nor financial resources or plans to enter any other business as of this date.

From the aspect of whether it can continue toward the business goal of maintaining and expanding the businesses in Canada and develop new business of internet services in China, it may use all of its available capital.

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

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

**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 YEAR ENDED DECEMBER 31, 2004 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2003.**

**Revenues.** The Company achieved revenues of \$2,170,766 in 2004 in contrast to \$280,723 in 2003 in the form of net sales of mobile marketing services and tuition fee from its subsidiaries: QuickNet and Windsor. The Gross profit in 2004 is \$1,697,531 compared to \$146,383 in 2003. A significant contributor to the increase in revenues and gross profit is the acquisition of QuickNet in June 2004.

**Operating Expenses.** The Company incurred operating expenses of \$1,939,747 in 2004 compared to operating expenses of \$337,093 in 2003 due to the acquisition of QuickNet. Salaries and advertising accounts for over 65% of operating expenses. The Company has invested in the Link Group, Inc. on December 20, 2001 and January 18, 2002. As of December 31, 2004, the Link Group, Inc.'s financial statements were not sufficiently timely for the Company to apply the equity method and Link Group, Inc.'s shares were ceased trading over nine months.

Therefore, the Company recorded an impairment of \$172,250 on these shares.

Loss from continuing operations. Loss from continuing operations for 2004 was (\$258,772) compared to the 2003 operating loss of (\$207,996). The Company recorded an impairment on Link Group, Inc.'s shares for \$172,250.

Net Income. Net Income available to Common Stockholders is \$3,018,672 in the contrast to a Net Loss of \$314,277 in 2003. This is caused by extraordinary gain on disposal of internet-related operations of \$3,319,098 (China DNS).

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Earnings per share. Earnings per share is \$0.20 in 2004 compared to a loss per share of (\$0.02) in 2003. Positive earnings per share were attributable to the extraordinary gain. Operating earnings in 2004 were negative at (\$0.02) per share compared to a loss of (\$0.01) per share in 2003.

**Future Trends:**

In the Mobile Solution Service business, the Company cannot assure that any profit on revenues can be maintained in the future, because it may have to continue, through its joint venture business, to advertise and promote its services and develop additional value-added services in order to preserve or increase its market share. In spite of taking measures to control expenses, operating losses may continue. If the Company acquires additional capital, for example through sale of stock in private placements or through investors exercising warrants, it may be able to advertise and promote its services more aggressively and expand its business more rapidly.

On the Education Services side, we have operated for 2 years now; the competition is very fierce in the market. The Canadian government has tightened its budget on English training for new immigrants, which leads to reduced government funding for Windsor, this will have negative effects to the revenue of Windsor Education Academy. Canadian government also adopted more strict system to choose schools that can be funded by the government and every school needs to re-register with the government. The Government supported ELSA courses held in Windsor Education Academy ended by Mar. 31, 2005.

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**Recent Accounting Pronouncements:**

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries as outlined in Note 2. All significant inter-company transactions and balances have been eliminated on consolidation.

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

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

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

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



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

**ITEM 7. FINANCIAL STATEMENTS**

The response to this item is included as a separate exhibit to this report. Please see pages F-1 through F-16.

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

On December 22, 2004, the Board of Directors of China Mobility Solutions, Inc. ("China Mobility") approved a change in auditors. The Board of Directors approved the dismissal of Clancy and Co., P.L.L.C. ("Clancy and Co., P.L.L.C.") as China Mobility's independent public accountants and the selection of Moen and Company as their replacement.

Clancy and Co., P.L.L.C.'s reports on the consolidated financial statements of China Mobility and its subsidiaries for the two most recent fiscal years ended December 31, 2003 and 2002 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During China Mobility's two most recent fiscal years ended December 31, 2003 and 2002 and the subsequent interim period through December 22, 2004, there were no disagreements between China Mobility and Clancy and Co., P.L.L.C. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Clancy and Co., P.L.L.C.'s satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their reports on China Mobility's consolidated financial statements for such years; and there were no reportable events as described in Item 304(a)(1)(iv) of Regulation S-K. China

Mobility provided Clancy and Co., P.L.L.C. with a copy of the foregoing disclosures. Attached as Exhibit 16 is a copy of Clancy and Co., P.L.L.C.'s letter, dated January 4, 2005, stating its agreement with such statements.

In addition, during China Mobility's two most recent fiscal years ended December 31, 2003 and 2002 and the subsequent interim periods through December 22, 2004, China Mobility did not consult with Moen and Company with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on China Mobility's financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

**ITEM 8A. CONTROLS AND PROCEDURES**

The management of the company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of December 31, 2004 (evaluation date) and have concluded that the disclosure controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

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

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**ITEM 8B. OTHER INFORMATION**

None.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTORS, AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

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

Name	Age	Title	Term
Xiao-qing Du	34	President and Director	Annual
Ernest Cheung	54	Director and Secretary	Annual

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

Ernest Cheung	20%
Angela Du	100%

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

(b) Identification of Certain Significant Employees.

Strategic matters and critical decisions are handled by Company directors and executive officers: Xiao-qing Du and Ernest Cheung. Day-to-day management is delegated to Xiao-qing (Angela) Du partly in China and partly in Canada and Xin Wei in China. Wei is an employee of the wholly-owned subsidiary, InforNet Investment Corp. Xin Wei occupies the position of President of the Chinese subsidiary on strategies, planning, business development.

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

(d) Business Experience.

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

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**Xiao-Qing (Angela) Du**, President and Director, age 34.

She has been President and Director of our company from 2003 to date. 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 was Business Manager of China Machinery & Equipment I/E Corp. (CMEC) from 1992 to 1994. She is now President of InforNet Investment CORP., the Company's wholly owned subsidiary in Canada since 1997. She was President of China Mobility from 1997 to 1999. She ran the operations in China of the DNS and web hosting business.

**Ernest Cheung**, Secretary and Director, age 54.

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

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

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

\* Reporting Companies in US

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

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(e) Committees of the Board of Directors

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

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

**Audit Committee.** On August 31, 1999, the Board of Directors established an Audit Committee, which consists of two directors, Angela Du and Ernest Cheung. The Audit Committee will be charged with recommending the engagement of independent accountants to audit Company financial statements, discussing the scope and results of the audit with the independent accountants, reviewing the functions of Company management and independent accountants pertaining to its financial statements and performing other related duties and functions as are deemed appropriate by the Audit Committee and the Board of Directors.

**Qualified Financial Expert.** Ernest Cheung is a qualified financial expert as a chartered accountant and an MBA with twenty years' experience in public companies.

(f) Resolution of conflicts of interest

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

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

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

**ITEM 10. EXECUTIVE COMPENSATION**

(a) Officers' Compensation

Compensation paid by the Company for all services provided up to December 31, 2004, (1) to each of the executive officers and (2) to all officers as a group.

Table of Contents**SUMMARY COMPENSATION TABLE OF EXECUTIVES**

Name and Principal Position	Year	Cash Compensation			Security Grants				
		Salary	Bonus	Annual Compensation	Restricted Stock Options (#)	Securities, Long Underlying Term Compensation / LTIP	All other Compensation		
Xiao-qing Du, President of Infonet Subsidiary	2001	32,084	0	0	0	0	0	0	0
		4,809							
	2002	(CDN)	0	0	0	0	0	0	0
	2003	0	0	0	0	0	0	0	0
	2004	0	0	0	0	0	0	0	330,000(2)
Ernest Cheung, Secretary	2001	0	0	24,000	0	0	0	0	0
				24,000					
	2002	0	0	(CAD)	0	0	0	0	0
	2003	0	0	0	0	0	0	0	0
	2004	0	0	0	0	0	0	0	165,000(2)
Officers as a group	2001	32,084	0	24,000	0	0	0	0	0
		4,809		24,000					
	2002	(CAD)	0	(CAD)				0	0
	2003	0	0	0	0	0	0	0	0
	2004	0	0	0	0	0	0	0	495,000

(1) Ernest Cheung received 16,667 options to buy 16,667 shares at \$3.90 per share, plus Richco Investors, Inc. of which Mr. Cheung is an officer and director, and Mr. Tsakok is an officer and director, received 128,333 units for services in structuring the private placement. Mr. Tsakok has resigned as an officer and Director of the Company.

(2) Options at \$.30 per share expiring August 1, 2007.

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

**(b) Directors' Compensation**

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

Table of Contents**SUMMARY COMPENSATION TABLE OF DIRECTORS**

(To December 31, 2003)

Name and Principal Position	Year	Cash Compensation			Security Grants				
		Annual Retainer Fees (\$)	Meeting Fees (\$)	Consulting Fees/Other Fees (\$)	Number of Shares	Securities, Underlying Options/SARs (#) (SHARES)	LTIP Payments	All other Compensation	
Xiao-qing Du,	2001	0	0	0	0	0	0	0	
Director	2002	0	0	0	0	0	0	0	
	2003	0	0	0	0	0	0	0	
	2004	0	0	0	0	0	0	0	
Ernest Cheung,	2001	0	0	0	0	0	0	0	
Director	2002	0	0	0	0	0	0	0	
	2003	0	0	0	0	0	0	0	
	2004	0	0	0	0	0	0	0	
Maurice Tsakok	2001	0		24,000 (CAD)	0	0	0	0	
Director (1)	2002	0	0	24,000 (CAD)	0	0	0	0	
(Resigned 2004)	2003	0	0	0	0	0	0	0	
	2004	0	0	0	0	0	0	0	
Directors as a group	2001			84,000(CAD)					
	2002			54,000(CAD)					
	2003								
	2004								

(1) On July 15, 2004, Maurice Tsakok resigned as the director of the Company.

\* See Executive Compensation Table.

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

**Termination of Employment and Change of Control Arrangements:**

None.

**Stock purchase options:** (Note all of these options are subject to the 1 for 3 reverse split effectuated in 2004. This would reduce the options by a factor of 3 and increase the exercise price by a factor of 3.)

On November 12, 1999 the Company granted options to purchase shares at \$1.30 per share to entities/persons who contributed to the Company in 1999, which are unexpired, as follows:

- (a) 262,000 options to Gemsco Management Ltd., beneficially Maurice Tsakok, for designing and implementing the Company's corporate website, advising on technological matters, researching the technology sector and for services as a director;
- (b) 262,000 options to Farmind Link Corp. for their role as advisor on strategic issues, technology market trends, and financial and capital market issues;

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- (c) 262,000 options to Sinhoy Management Ltd., beneficially Marc Hung, for their contributions to the general management of our company, investor relations, technological matters and for services as a director;
- (d) 212,000 options to Lancaster Pacific Investment, Ltd. for their contributions in the areas of regulatory matters, Chinese market conditions and strategies aimed at penetrating that market;
- (e) 50,000 options to Ernest Cheung for services rendered as secretary and director; and
- (f) 20,000 options to Yonderiche International Consultants Ltd. for services rendered in matters regarding Chinese government policies and regulations.

**Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors, and greater than ten percent stockholders are required by regulation to furnish to the Company copies of all Section 16 forms they file. Disclosure is not contained herein regarding Section 16 filings.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Section 13(d) of the Securities Exchange Act of 1934, as amended (The "Exchange Act"), requires persons who own more than 5% of a registered class of the its equity securities, to file Schedules of ownership and changes in ownership of Company equity securities with the Securities and Exchange Commission.

(a) Beneficial owners of five percent (5%) or greater, of Company common stock: The following sets forth information with respect to ownership by holders of more than five percent (5%) of its common stock known by the Company based upon 15,826,670 shares outstanding at December 31, 2004, and in the event of exercise of all options for our stock.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Interest	Percent of Class	If options exercised*
Common Stock	Xiao-qing Du Ste. 900-789 West Pender St. Vancouver, BC V6C 1H2	1,250,000 (2)(9)	7.9%	7.6%
Common Stock	Richco Investors, Inc. Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	1,137,999 (1)(3)(4)(7)	7.2%	6.9%
Common Stock	Ernest Cheung Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	1,446,333 (1)(3)(6)(7)(9)	9.1%	8.8%
Common Stock	Maurice Tsakok Ste. 830-789 West Pender St. Vancouver, BC V6C 1H2	1,225,333 (1)(3)(5)	7.7%	7.4%
Common Stock	QuickNet Partners	2,040,000	12.9%	12.4%

#1859 New Century  
Office Tower  
Beijing China

Includes options exercisable within 30 days.

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(b) The following sets forth information with respect to the Company common stock beneficially owned by each Officer and Director, and by all Directors and Officers as a group, at December 31, 2004, and in the event of exercise of all options for our stock held by such listed holders and their affiliates or beneficial owners.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Interest	Percent of Class	All warrants exercised**
Common Stock	Xiao-qing Du (Director) Ste. 900-789 West Pender St. Vancouver, B.C. V6C 1H2	1,250,000 (2)(8)	7.9%	7.6%
Common Stock	Ernest Cheung (Secretary & Director) (Including Richco Investors)	1,446,333 (1)(3)(4)(5)(6)(8)	9.1%	7.3%
Common Stock	Maurice Tsakok (Including Richco Investors)	1,225,333 (1)(3)(4)(5)(6)(8)	7.7%	6.2%
Total for officers and directors as a group		2,696,333	16.4	13.3

(1) Richco Investors, Inc., owns 1,137,999 shares after the reverse split. Messrs. Cheung and Tsakok are officers, directors and beneficial owners of Richco Investors Inc. For purposes of this table, the shares owned by Richco are deemed owned by Mr. Cheung and Mr. Tsakok, beneficially and individually. Mr. Cheung received 165,000 options in 2004.

(2) As an officer Ms. Du received 330,000 options in 2004.

(3) Ernest Cheung has 16,667 options (after the reverse split) to purchase shares at \$3.90 and 165,000 options at \$.30.

(4) Maurice Tsakok has 87,333 options after the reverse split to purchase shares at \$3.90.

(5) Ernest Cheung is President of Development Fund II of Nova Scotia, Inc. which owns 63,333 common shares after the reverse split.

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

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

(8) QuickNet Partners owns 2,040,000 common shares after the reverse split for the acquisition.

(9) XiaoQing Du owns 330,000 post reverse split options at the exercise price of \$0.30; Ernest Cheung owns 165,000 post reverse split options at the exercise price of \$0.30.

\*If all warrants for units are exercised. \*\*If all warrants and options for shares are exercised.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Options: In 2004, the Company's directors were granted 495,000 options to purchase shares at \$0.30. All of the options are outstanding as of December 31, 2004. Angela Du received 330,000 options and Ernest Cheung received 165,000 options.

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**ITEM 13. EXHIBITS**

3.6	Articles of Amendment Incorporated by Reference as previously filed in an 8-K dated June 25, 2005
10.11	Share Purchase Agreement (Incorporated by reference) Previously filed 8K 12/24/01
10.1	Investment Banking Agreement (Incorporated by reference) Previously filed 8K 11/28/01
10.1	Share Exchange Agreement (Incorporated by reference) Previously filed 8K 10/03/01
3.2	Amended Bylaws (Incorporated by reference) Previously filed 8K 8/15/01
10.1	Letter of Intent (Incorporated by reference) Previously filed 8K 8/03/01
10.1	Assets Transfer Agreement (Incorporated by reference) Previously filed 8K 7/12/01
31.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

Audit Fees. C&C billed the Company for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended December 31, 2002 and quarterly review \$31,230. C&C billed the Company \$23,053 for the 2004 audit and 2004 quarterly reviews.

There were no audit related fees in 2003 or 2004. There were no tax fees in 2003 or 2004.

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

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

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: May 10, 2006

CHINA MOBILITY SOLUTIONS,  
INC.

by: /s/ Xiao-qing Du  
Xiao-qing Du, President

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

/s/ Xiao-qing Du      President,  
Director and      May 10, 2006  
Principal      Accounting  
Officer

Xiao-qing Du

/s/ Ernest      Secretary,  
Cheung      Director and      May 10, 2006  
Principal      Financial Officer

Ernest Cheung

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**MOEN AND COMPANY  
CHARTERED ACCOUNTANTS**

Member:	Securities Commission Building
Canadian Institute of Chartered Accountants	PO Box 10129, Pacific Centre
Institute of Chartered Accountants of British Columbia	Suite 1400 - 701 West Georgia Street
Institute of Management Accountants (USA) (From 1965)	Vancouver, British Columbia
Registered with:	Canada V7Y 1C6
Public Company Accounting Oversight Board (USA) (PCAOB)	Telephone: (604) 662-8899
Canadian Public Accountability Board (CPAB)	Fax: (604) 662-8809
Canada - British Columbia Public Practice Licence	Email: moenca@telus.net

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
China Mobility Solutions, Inc.

We have audited the accompanying consolidated balance sheet of China Mobility Solutions, Inc. as of December 31, 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of China Mobility Solutions, Inc. as of December 31, 2003 were audited by other auditors whose report, dated April 23, 2004, expressed an unqualified opinion on those consolidated financial statements, except for an additional paragraph concerning going concern disclosure.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Mobility Solutions, Inc. as of December 31, 2004, and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*/s/ "Moen and  
Company LLP"  
"Moen and  
Company LLP"  
Vancouver,  
B r i t i s h*

Columbia,  
Canada  
Chartered  
Accountants  
April 6,  
2005, except  
for  
Notes 4, 8, 9,  
11 as to  
which the  
date is  
March 30,  
2006



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**CHINA MOBILITY SOLUTIONS, INC.**  
**(formerly Xin Net Corp.)**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**  
**Stated in U.S. dollars**

ASSETS	2004 (Audited)	2003 (Audited)
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 5,380,622	\$ 3,303,591
Accounts receivable, net of allowance of \$nil (2003: \$58,678)	34,560	1,107
Prepaid Expenses and Other Current Assets	33,070	31,246
Amount due from related parties	18,322	-
Assets to be disposed of	-	2,533,838
<b>Total Current Assets</b>	<b>5,466,574</b>	<b>5,869,782</b>
<b>Investment (Note 4)</b>	<b>1</b>	<b>253,524</b>
<b>Property and Equipment, Net (Note 5)</b>	<b>6,549</b>	<b>9,870</b>
<b>Goodwill</b>	<b>973,906</b>	<b>187,436</b>
<b>Total Assets</b>	<b>\$ 6,447,030</b>	<b>\$ 6,320,612</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable and Other Accrued Liabilities	\$ 340,824	\$ 141,542
Deferred Revenue	2,111,698	28,354
Liabilities to be disposed of	-	3,284,355
Security deposit from Sino-i.com Ltd.	-	2,416,200
<b>Total Current Liabilities</b>	<b>2,452,522</b>	<b>5,870,451</b>
<b>Minority Interest</b>	<b>32,791</b>	<b>38,147</b>
<b>Stockholders' Equity</b>		
Common Stock : \$0.001 Par Value		
Authorized : 50,000,000 common shares		
Issued and Outstanding : 15,826,670 common shares (2003: 13,786,670)		
Par Value	15,827	13,787
Additional Paid In Capital	8,770,378	8,221,618
Accumulated Deficit	(4,640,956)	(7,659,628)
Accumulated Other Comprehensive Loss	(183,532)	(163,763)
<b>Total Stockholders' Equity</b>	<b>3,961,717</b>	<b>412,014</b>

<b>Total Liabilities and Stockholders' Equity</b>	\$	6,447,030	\$	6,320,612
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(The accompanying notes are an integral part of these financial statements)

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**CHINA MOBILITY SOLUTIONS, INC.**  
**(formerly Xin Net Corp.)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**Stated in U.S. dollars**

<b>Revenue</b>	<b>2004</b> <b>(Audited)</b>	<b>2003</b> <b>(Audited)</b>
Mobile marketing services	\$ 1,871,960	\$ -
Tuition fee	298,806	280,723
<b>Total Revenue</b>	<b>2,170,766</b>	<b>280,723</b>
<b>Cost of revenue</b>		
Mobile marketing services	412,222	-
Tuition fees	61,013	134,340
	473,235	134,340
<b>Gross profit</b>	<b>1,697,531</b>	<b>146,383</b>
<b>Expenses</b>		
Advertising and promotion	541,142	16,048
Consulting and professional	116,784	118,052
Depreciation	2,071	7,394
Foreign exchange loss (gain)	(24,029)	(14,032)
General and administrative	110,116	58,219
Rent	296,920	68,966
Salaries, wages and sub-contract	724,493	82,446
Impairment on marketable securities	172,250	-
<b>Total Expenses</b>	<b>1,939,747</b>	<b>337,093</b>
<b>Operating Loss</b>	<b>(242,216)</b>	<b>(190,710)</b>
<b>Other Income and Expenses</b>		
Interest income	82,602	15,066
Other income	10,272	7,678
Equity loss in undistributed earnings of investee company	(81,273)	(66,076)
	11,601	(43,332)
<b>Loss before minority interest and discontinued operations</b>	<b>(230,615)</b>	<b>(234,042)</b>
<b>Minority interest</b>	<b>(28,157)</b>	<b>26,046</b>
<b>Loss from Continuing Operations</b>	<b>(258,772)</b>	<b>(207,996)</b>
<b>Discontinued operations</b>		
Loss from Assets held for sale	-	(322,987)
Gain on disposal of ISP operations	-	206,653
	<b>3,319,098</b>	<b>-</b>

Gain on disposal of internet-related operations  
(Note 6)

Loss on disposal of business press operations (Note 7)	(41,292)	-
Income (loss) from discontinued operations (Note 7)	(362)	10,053
	3,277,444	(106,281)

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

\$ 3,018,672 \$ (314,277)

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

Earnings (loss) from continuing operations	\$ (0.02)	\$ (0.01)
Earnings (loss) from discontinued operations	0.22	(0.01)
Total basic and diluted	\$ 0.20	\$ (0.02)

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

Basic and diluted 14,856,834 13,786,670

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

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**CHINA MOBILITY SOLUTIONS, INC.**  
**(formerly Xin Net Corp.)**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	Stated in U.S. dollars		Capital Stock Additional Paid In		Accumulated Other Comprehensive		
Common	Par	Value	Capital	Total	Accumulated Deficit	Loss	Total
Shares							
Balance, December 31, 2002	41,360,010	\$ 41,360	\$ 8,194,045	\$ 8,235,405	\$ (7,345,351)	\$ (148,659)	\$ 741,395
Net loss for year ended December 31, 2003					(314,277)		(314,277)
Foreign Currency Translation Adjustments						(15,104)	(15,104)
Balance, December 31, 2003	41,360,010	\$ 41,360	\$ 8,194,045	\$ 8,235,405	\$ (7,659,628)	\$ (163,763)	\$ 412,014
Issuance of common stock for acquisition of Quicknet on June 23, 2004	6,120,000	6,120	544,680	550,800			550,800
Reverse stock split 3:1 on June 24, 2004	(31,653,340)	(31,653)	31,653	-			-
Net income for year ended December 31, 2004					3,018,672		3,018,672
Foreign Currency Translation						(19,769)	(19,769)

Adjustments

Balance, December 31, 2004	15,826,670	\$	15,827	\$	8,770,378	\$	8,786,205	\$	(4,640,956)	\$	(183,532)	\$	3,961,717
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(The accompanying notes are an integral part of these financial statements)

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**CHINA MOBILITY SOLUTIONS, INC.**  
**(formerly Xin Net Corp.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**Stated in U.S. dollars**

	<b>2004</b>		<b>2003</b>
	<b>(Audited)</b>		<b>(Audited)</b>
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 3,018,672	\$	(314,277)
Less: loss from assets held for sale	-		322,987
Less: loss from discontinued operations	362		(10,053)
Adjustments to reconcile net loss to net cash			
Provided by (Used in) operating activities			
Depreciation and amortization	2,071		7,394
Foreign Currency Translation adjustments	(19,769)		(15,104)
Minority interest	28,157		(26,046)
Impairment on marketable securities	172,250		-
Gain on disposal of ISP operations	-		(206,653)
Gain on disposal of internet-related operations	(3,319,098)		-
Loss on disposal of business press operations	41,292		-
Equity loss of The Link Group, Inc.	81,273		66,076
Changes in assets and liabilities			
(Increase) Decrease in accounts receivable	57,107		(1,107)
(Increase) Decrease in prepaid expenses and other current assets	9,174		(8,824)
Increase in amount due from related parties	(18,322)		-
Increase (Decrease) in accounts payable	(75,848)		32,498
Increase (Decrease) in deferred revenue	468,649		(9,371)
Increase in security deposits	-		2,416,200
Net cash provided by operating activities	445,970		2,253,720
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	-		(10,661)
Reduction in investment	-		1,266
Cash acquired from acquisition of Quicknet	1,477,355		-
Net cash flows provided by (used in) investing activities	1,477,355		(9,395)
Effect of exchange rate changes on cash	694		-
<b>Net cash provided by continuing operations</b>	<b>1,924,019</b>		<b>2,244,325</b>
<b>Net cash provided by assets held for sale</b>	<b>152,381</b>		<b>98,751</b>
<b>Net cash provided by discontinued operations</b>	<b>631</b>		<b>3,382</b>
<b>Increase in cash and cash equivalents</b>	<b>2,077,031</b>		<b>2,346,458</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>3,303,591</b>		<b>957,133</b>

<b>Cash and cash equivalents - end of year</b>	\$	5,380,622	\$	3,303,591
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Supplemental Information :

Cash paid for :

Interest	\$	69	\$	6,565
Income taxes		-		10,978

Non-cash investment :

Issuance of 6,120,000 common shares for the acquisition of Quicknet	\$	550,800	\$	-
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(The accompanying notes are an integral part of these financial statements)



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CHINA MOBILITY SOLUTIONS, INC.  
(formerly China Mobility Solutions, Inc.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004

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

Nature of Business

China Mobility Solutions, Inc. ("the Company"), previously known as Xin Net Corp., was incorporated under the laws of the State of Florida on September 12, 1996, with an authorized capital of 50,000,000 shares of \$0.001 par value common stock. The Company's principal business activities include providing mobile/wireless communication; in particular, Short Message Services ("SMS") and education and training courses for foreign students.

Prior to June 2003, the Company provided internet-related services, including domain name registration, web-hosting and other value-added services, such as e-commerce and advertising in several major cities in the Peoples Republic of China ("PRC"). Due to the lack of funding and high competition in the market, the Company signed an agreement to sell its internet-related services in the PRC (see Note 6 for details).

Summary of Significant Accounting Policies

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries as outlined in Note 2. All significant inter-company transactions and balances have been eliminated on consolidation.

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

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk - The Company maintains Renminbi cash balances in banks of the People's Republic of China and U.S. Dollar cash balances in Canadian and Hong Kong banks, that are not insured. Revenues were derived in geographic locations outside the United States. The ELSA program of Windsor accounts for 53% of the total tuition fees and 7.3% of the total revenue of the Company. The SMS of Quicknet accounts for 86.2% of the total revenue of the Company.

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

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

Accounts receivable and allowance for doubtful accounts - Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers

that satisfy predefined credit criteria. The Company is required to estimate the collectability of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate realization of these receivables.

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

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

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

Revenue recognition - The Company's revenues for 2004 consisted of revenues from SMS, education and training services. "All the mobile communication service is provided on a subscription basis. All the customers have to pay in advance a deposit for a one-year service to be provided. Revenue has been allocated over the service period." The accounting treatment is in accordance with S.E.C. Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The Company recognizes revenue when the following criteria are met: persuasive evidence that an arrangement exists; delivery has occurred or services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. If all of the above criteria have been met, revenues are principally recognized upon shipment of products or when services have been rendered. Revenues derived from SMS, education and training is recognized as the services are performed. Amounts received from customers in advance of revenue recognition are deferred and classified on the balance sheet as "deferred revenue."

The Company's revenues for 2003, which are included in discontinued operations, consisted of revenues from commercial printing. Revenues derived from commercial printing are recognized when the job has been completed and is delivered to the customer.

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

Deferred revenue and deferred cost - Deferred revenue for 2004 consists primarily of SMS (\$2,105,165), education and training (\$6,533) revenue received prior to the services being performed.

Deferred revenue for 2003, which is included as a component of "Liabilities to be disposed of" consists of prepaid domain name registration fees. End users receive certain elements of the Company's revenues over a period of time. As a result, the Company's revenue recognized represents the fair value of these elements over the product's life cycle. Deferred cost for 2003, which is included as a component of "Assets to be disposed of" consists of amounts paid to various registrars for domain name registration fees and are deferred on the same basis as revenue.

Capitalized software costs - The Company accounts for the development cost of software intended for sale in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed." SFAS No. 86 requires product development costs to be charged to expense as incurred until technological feasibility is attained. Technological feasibility is attained when the Company's software has completed system testing and has been determined viable for its intended use.

Accordingly, the Company did not capitalize any development costs during the period. Total costs expensed during the periods presented were approximately \$55,577 for 2004 and \$250,000 for 2003.

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Advertising costs - Advertising costs are expensed as incurred. Total advertising costs charged to operations amounted to \$538,949 for 2004 and \$16,822 for 2003. Total advertising costs included in discontinued operations amounted to \$2,193 for 2004 and \$155,075 for 2003.

Income taxes - The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce deferred income tax assets to the amount expected to be realized.

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

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

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

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

Stock-based compensation - The Company accounts for stock-based compensation using the intrinsic value method

prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No.123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to remain on its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, amending FASB No. 123, and "Accounting for Stock-Based Compensation". This statement amends Statement No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. The Company adopts the disclosure provisions and the amendment to APB No. 28 effective for interim periods beginning after December 15, 2002.

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

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CHINA MOBILITY SOLUTIONS, INC.  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004

	2004	2003
Net income (loss)		
As reported	\$ 3,018,672	\$ (314,277)
Stock-based employee compensation cost, net tax	(267,300)	(122,758)
Pro-forma	\$ 2,751,372	\$ (437,035)
Loss per share		
As reported	\$ 0.20	\$ (0.02)
Pro-forma	\$ 0.19	\$ (0.03)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	3.65%
Expected life of options in years	1 to 3 years
Expected volatility	184%
Dividend per share	\$0.00

**Comprehensive income** - The Company has adopted SFAS No. 130, Reporting Comprehensive Income, which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The Company includes items of other comprehensive loss by their nature, such as foreign currency translation adjustments, in a financial statement and displays the accumulated balance of other comprehensive loss separately from accumulated deficit in the equity section of the balance sheet. The Company discloses total comprehensive loss, its components and accumulated balances on its statement of stockholders' equity.

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

**Related party transactions** - A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. (See Note 12)

**Fair value of financial instruments** - For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses, amount due from related parties, accounts payable and accrued liabilities, and deferred revenue, the carrying amounts approximate fair value due to their short maturities.

Reclassification of Prior Period - Certain prior period amounts have been reclassified to conform to the current year presentation. These changes had no effect on previously reported results of operations or total stockholders' equity.

Recent Accounting Pronouncements - The Financial Accounting Standards issued the following pronouncements during 2004, none of which are expected to have a significant affect on the financial statements:

In March 2004, the EITF reached final consensus on EITF 03-6 which provides additional guidance to determine whether a security is a participating security and therefore subject to the two-class method under SFAS 128. The guidance in EITF 03-6 clarifies the notion of what constitutes a participating security, and is effective for fiscal periods (interim or annual) beginning after March 31, 2004. EITF 03-06 provides guidance in applying the two-class method of calculating earnings per share for companies that have issued securities other than common stock that contractually entitle the holder to participate in any dividends declared and earnings of the company. The opinion defines what constitutes a participating security and how to apply the two-class method of calculating earnings per share to those securities. In addition, the consensus in EITF 03-6 nullifies the guidance in EITF Topic No. D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings Per Share", and requires the use of the two-class method to compute basic EPS by companies with participating convertible securities. The adoption did not have an impact on our calculation of earnings per share.



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CHINA MOBILITY SOLUTIONS, INC.  
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DECEMBER 31, 2004

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In April 2004, the EITF reached consensus on EITF Issue No. 03-6, "Participating Securities and the Two Class Method under FASB Statement No. 128" ("EITF 03-6"). EITF 03-6 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in the dividends and earnings of the company when, and if, it declares dividends on its common stock. EITF 03-6 also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-6 is effective for fiscal periods beginning after March 31, 2004 and requires retroactive restatement of prior earning per share amounts. This statement does not affect the Company.

In June 2004, the FASB issued EITF Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF Issue No. 02-14 addresses whether the equity method of accounting applies when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF Issue No. 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The accounting provisions of EITF Issue No. 02-14 are effective for the reporting period beginning after September 15, 2004. The Company is in the process of determining the effect, if any, of the adoption of EITF Issue No. 02-14 will have on the Company's financial position, results of operations, or cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company does not believe the adoption of SFAS No. 151 will have a material impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." SFAS 123R is effective for interim reporting period that begins after June 15, 2005. The Company is in the process of determining the effect of the adoption of SFAS 123R will have on its financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," which discusses the accounting and reporting of real estate time-sharing transactions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005, and restatement of previously issued financial statements is not permitted. This statement does not affect the Company.

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The Company completed the evaluation of EITF 00-21 "Revenue Arrangements with Multiple Deliverables" in year 2004. Implementation of EITF 00-21 does not have any impact on the financial position and results of operations of the Company.

The Company also completed the evaluation of FIN46 "Consolidation of Variable Interest Entities" in year 2004. Implementation of FIN46 does not have any impact on the financial position and results of operations of the Company.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and provided an exception to the basic measurement principle (fair value) for exchanges of similar productive assets. That exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. This Statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance--that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, applied prospectively. This statement does not affect the Company.

NOTE 2 - SUBSIDIARIES

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

(1) Infornet Investment Limited (a Hong Kong corporation) ("Infornet HK") is a telecommunication and management network company providing financial resources and expertise in telecommunication projects. This subsidiary was originally incorporated as Micro Express Limited and was acquired at no cost. The name was changed to Infornet Investment Limited on July 18, 1997.

(2) Infornet Investment Corp., (a Canadian corporation) ("Infornet Canada") is engaged in a similar line of business as that of the Company. The Company issued 5,000,000 shares of common stock to acquire this subsidiary for a total value of \$65, representing organizational costs and filing fees.

(3) Xinbiz (HK) Limited (a Hong Kong corporation) ("Xinbiz Ltd.") and Xinbiz Corp. (a British Virgin Islands corporation) ("Xinbiz Corp."). Both subsidiaries were inactive during 2004 and 2003.

(4) Windsor Education Academy Inc., (a Canadian Corporation) ("Windsor") is engaged in providing English as a secondary language ("ESL") training program to foreign students.

NOTE 3 - ACQUISITION OF QUICKNET

On June 23, 2004, the Company completed the acquisition of a 49% equity interest from the shareholders of Beijing Quicknet Technology Development Corp. ("Quicknet"), located in Beijing, China. Quicknet is engaged in the development of software for mobile/wireless communication, in particular, that for Short Message Services ("SMS"). The 49% equity interest was made through the issuance of 6,120,000 shares of common stock of the Company at a deemed price of \$0.50 per share (2,040,000 post-reverse split at a market price of \$0.27 per share for a total of \$550,800). Due to the restrictions on foreign ownership of telecommunication companies in China, an additional 2% of the equity interest of Quicknet is held by a local China company ("Chinaco") owned by two senior officers of the Company who have Chinese citizenship. This 2% interest will be transferred to the Company through a purchase agreement signed with Chinaco in August 2005 (the "Purchase Agreement") for a nominal amount of consideration at such time as Chinese law permits and Chinaco has granted an unconditional, irrevocable proxy without time limit to the Company. Through this arrangement, the Company directly and indirectly owns and controls 51% equity interest in QuickNet. Under the August 2005 Purchase Agreement, the Company has an option to acquire the remaining 49% equity interest in Quicknet within the first year from the closing date for \$4,000,000. The Company has another option to acquire this remaining 49% equity interest in Quicknet within the second year from the closing date for \$5,000,000. As a general rule, the Company can pay these amounts by 50% in shares of the common stock of the Company and 50% in cash. The final percentage of shares versus cash can be negotiated between both parties.

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Quicknet's financial information is incorporated into the consolidation of the Company effective June 30, 2004, as the transactions that occurred between the period from June 23, 2004 to June 30, 2004 were immaterial.

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

Cash and short term investments	\$ 1,477,355
Accounts receivables	90,560
Prepaid expenses	10,998
Fixed assets, net	846,782
Goodwill	(275,130)
Accounts payables and accrued liabilities	(1,614,695)
	-
Fair value of consideration	2,040,000
common shares @ \$0.27 per share	\$ 550,800

The following pro forma information is based on the assumption that the acquisition took place as of beginning of the period (January 1, 2004), with comparative information for the immediately preceding period as though the acquisition had been completed at the beginning of that period:

	2004	2003
Net sales	\$ 3,191,010	\$ 502,035
Net income (loss)	\$ 3,258,277	\$ (594,293)
Basic and diluted earnings (loss) per share	\$ 0.22	\$ (0.04)

#### NOTE 4 - INVESTMENT IN THE LINK GROUP, INC. ("LINK")

Pursuant to a Share Exchange Agreement dated December 20, 2001, the Company paid \$200,000 cash for 3,882,700 shares of The Link Group, Inc. ("Link").

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 14, 2002, Link cancelled 8,300,000 outstanding common shares as part of the consideration of the disposition of its subsidiary company and thereafter the Company's holding in Link correspondingly increases to 34.1%. On March 28, 2003, Link issued 3,000,000 common shares and cancelled 14,000,000 common shares and thereafter the Company's holding in Link correspondingly changed to 24.8%.

On August 5, 2003, Link cancelled 22,200,000 shares pursuant to a repurchase agreement and thereafter the Company's holding in Link correspondingly increased to 38.6%. On October 17, 2003, Link issued 36,000,000 shares for the acquisition of New Unicorn Holdings Ltd. and thereafter the Company's holding in Link correspondingly decreased to 20.26%.

The Company accounts for its investment in Link on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. As of December 31, 2004, the investee company's financial statements were not sufficiently timely for the Company to apply the equity method currently and Link's shares were ceased trading over nine months. Therefore, the Management of the Company recorded an impairment of \$172,250 on these shares and left a nominal value of \$1 for this investment to Link.

	2004	2003
Original cost of 15,370,675 shares of The Link Group, Inc.	\$ 800,300	\$ 800,300
Equity in undistributed earnings of investee company	(628,049)	(628,049)
Investment - at equity	172,251	172,251
Impairment on marketable securities	\$ 1	

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## NOTE 5 - PROPERTY AND EQUIPMENT

	December 31,	
	2004	2003
Equipment	\$ 24,832	\$ 24,832
Library	9,554	9,554
Furniture	9,975	9,975
Total	\$ 44,361	\$ 44,361
Less: Accumulated depreciation	(37,812)	(34,491)
Net book value	\$ 6,549	\$ 9,870

Depreciation charged to continuing operations amounted to \$2,071 for 2004 and \$7,394 for 2003. Depreciation included in discontinued operations amounted to \$397 for 2003 and \$746 for 2003.

## NOTE 6 - DISCONTINUED OPERATIONS - INTERNET-RELATED SERVICES

On February 26, 2003, the Company entered into an agreement to sell the internet-related services provided in China to a subsidiary company of Sino-i.com Ltd., the latter a company listed on the Hong Kong Stock Exchange, for total consideration of RMB 20 million (approximately US\$2,415,800). The transaction is subject to shareholders approval. Pursuant to Florida law, the Company was required to obtain shareholder approval for the sale of all or substantially all of the assets for a Florida corporation. However, if the assets do not represent all or substantially all of the business, the Board of directors can approve it without shareholder approval, which it did by written consent. Because there has been no operations or cash flows consolidated in the financial statements since 2001, the Company has eliminated this component from its ongoing operations and it does not have any significant continuing involvement in the operations of the component.

The gain on disposal of the internet-related business, together with the related assets and liabilities disposed of, is as follows:

Sales proceeds	\$ 2,415,800
Less: Current assets	(1,992,665)
Capital assets	(442,820)
Current liabilities	3,338,783
Gain on disposal of internet-related business	\$ 3,319,098

The results of the discontinued internet-related services for year 2004 and 2003 are as follows:

	2004	2003
Revenue	\$ -	\$ 2,372,554
Operating costs	-	(2,695,541)

Net profit (loss)	\$	-	\$	(322,987)
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NOTE 7 - DISPOSAL OF DAWA BUSINESS GROUP INC. ("DAWA")

On June 30, 2004, the Company entered into a Share Exchange Agreement (the "2004 Share Exchange Agreement") with Windsor Education Academy Inc. ("Windsor"), Dawa Business Group Inc. ("Dawa") and 1041571 B.C. Ltd. ("1041571") whereby the Company exchanged 102 shares, or 51%, of the issued and outstanding common stock of Dawa to 1041571 in consideration for 98 shares, or 49%, of the issued and outstanding common stock of Windsor.

The Company first acquired the 102 shares of common stock of Dawa pursuant to a prior Share Exchange Agreement, dated July 3, 2003, (the "2003 Share Exchange Agreement") between the Company, Windsor, Dawa and 1041571 whereby the Company exchanged 98 shares, or 49%, of the issued and outstanding common stock of Windsor to 1041571 in consideration for 102 shares, or 51%, of the issued and outstanding common stock of Dawa. Prior to the 2003 Share Exchange Agreement, Windsor was a wholly owned subsidiary of the Company.

At the close of the 2004 Share Exchange Agreement, the Company became the beneficial owner of all of the issued and outstanding stock of Windsor and the Company ceased to own any of the common stock of Dawa. The 2004 Share Exchange Agreement did not involve any cash consideration.

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The loss on disposal of Dawa, together with the related assets and liabilities disposed of, is as follows:

Sales proceeds	\$	26,862
Less: Current assets		(61,987)
Fixed assets		(1,617)
Goodwill		(60,312)
Other assets		(145)
Current liabilities		55,907
Loss on disposal of Dawa	\$	(41,292)

The result of Dawa operations for the six months ended June 30, 2004 and the pro forma results of operations for the six months ended June 30, 2003, which are shown for comparison purposes assuming the Company acquired Dawa as of January 1, 2003, are as follows:

	2004	2003
Revenue	\$ 213,205	\$ 149,338
Operating costs	(213,567)	(145,149)
Net profit (loss)	\$ (362)	\$ 3,189

## NOTE 8 - INCOME TAXES

There are no current or deferred tax expenses for the years ended December 31, 2004 and 2003, due to the Company's loss position. The Company has fully reserved for any benefits of these losses. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, as appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes. The income tax effect of temporary differences comprising the deferred tax assets and deferred tax liabilities on the accompanying consolidated balance sheets is a result of the following:

	2004	2003
Deferred tax assets	\$ 512,349	\$ 424,366
Valuation allowance	\$ (512,349)	(424,366)
Net deferred tax assets	\$ -	\$ -

The net change in the valuation allowance are principally the result of net operating loss carryforwards. The Company has available net operating loss carryforwards of approximately \$1,506,909 for tax purposes to offset future taxable income, which expire through 2024. All of the net operating loss carryforwards were generated by the parent company. The Company does not file a consolidated tax return because all of its subsidiaries are foreign corporations.

Pursuant to the Tax Reform Act of 1986, annual utilization of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% is deemed to occur within any three-year period. A reconciliation between the statutory federal income tax rate and the effective income rate of income tax expense for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
Statutory federal income tax rate	-34.0%	-34.0%
Valuation allowance	34.0%	34.0%
Effective income tax rate	0.0%	0.0%

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## NOTE 9 - SEGMENTS 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 expense not allocated to reportable segments.

A. By geographic areas	China	Canada	Other	Total
For the year ended December 31, 2004				
Revenue from continuing operations	\$ 1,871,960	\$ 298,806	\$ -	\$ 2,170,766
Operating profit (loss)	55,906	(22,060)	(276,062)	(242,216)
Total assets	6,362,416	75,925	8,689	6,447,030
Depreciation	-	1,906	165	2,071
Interest income	82,588	14	-	82,602
Gain from discontinued operations	3,277,444	-	-	3,277,444
Equity loss in undistributed earnings of investee company	-	-	(81,273)	(81,273)
Investment in equity method investee	-	-	1	1
For the year ended December 31, 2003				
Revenue from continuing operations	\$ -	\$ 280,723	\$ -	\$ 280,723
Operating profit (loss)	(2,395)	(110,325)	(77,990)	(190,710)
Total assets	5,675,109	151,474	494,029	6,320,612
Depreciation	-	6,680	714	7,394
Interest income	15,049	12	5	15,066
Loss from discontinued operations	(106,281)	-	-	(106,281)
Equity loss in undistributed earnings of investee company	-	-	(66,076)	(66,076)
Investment in equity method investee	-	-	253,524	253,524
B. By operating segments				
	Mobile communications	ESL education	Other	Total
For the year ended December 31, 2004				
Revenue from external customers	\$ 1,871,960	\$ 298,806	\$ -	\$ 2,170,766
Intersegment revenue	-	-	-	-
Interest revenue	82,588	14	-	82,602

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Interest expense - - 69 69

Depreciation - 1,710 361 2,071

Segment operation profit (loss) 57,964 (11,230)  
(288,950) (242,216)

Segment assets 6,351,943 73,823 21,264  
6,447,030

For the year ended December 31, 2003

Revenue from external customers \$ - \$ 280,723 \$  
- \$ 280,723

Intersegment revenue	-	-	-	-
Interest revenue	-	12	15,054	15,066
Interest expense	-	-	6,565	6,565
Depreciation	-	6,451	943	7,394
Segment operation profit (loss)	-	(63,208)	(127,502)	(190,710)
Segment assets	-	46,439	6,274,173	6,320,612

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NOTE 10 - COMMON STOCK, STOCK OPTIONS AND WARRANTS

Common Stock

On June 24, 2004, the Company carried out a 3 for 1 reverse stock-split. Figures of prior periods have been retroactively restated to reflect the effect of the reverse stock-split.

Stock Options

The Company granted 2,136,000 incentive stock options on November 12, 1999 to certain directors, officers, employees and consultants of the Company who contributed services to the Company. These stock options were expired on November 12, 2004. On July 23, 2004, the Company granted incentive stock options for 1,155,000 shares at a price of \$0.30 per share exercisable up to August 1, 2007, to five directors. All the options were vested immediately. (See Note 12)

Options outstanding at December 31, 2004 were 1,155,000 with option price of \$0.30. No options were canceled, forfeited, or exercised during 2004. 2,136,000 stock options with an exercise price of \$1.30 were expired during the year. The weighted average exercise price of the options outstanding and exercisable is \$0.30 and the weighted average remaining contractual life is 2.6 years.

Warrants

On April 1, 2003, the Company extended its outstanding 5,884,990 (1,961,663 post-reverse split) Series "A" Share Purchase Warrants as follows:

- (i) the exercise price of the Series "A" Share Purchase Warrants is adjusted to \$0.50 (\$1.50 post-reverse split) each and their term is extended to March 31, 2005: (Subsequently expired)
- (ii) upon exercise of one Series "A" Share Purchase Warrants at \$0.50 (\$1.50 post-reverse split), the holder will receive one common share of the company and one Series "B" Share Purchase Warrant; and (iii) the exercise price of the Series "B" Share Purchase Warrants is adjusted to \$0.75 (\$2.25 post-reverse split) each and their term is extended to March 31, 2006;
- (iv) upon exercise of one Series "B" Share Purchase Warrant at \$0.75 (\$2.25 post-reverse split), the holder will receive one common share of the Company.

As of December 31, 2004, there were 5,884,990 and 10 Series "A" and Series "B" warrants outstanding respectively.

NOTE 11 - COMMITMENTS

Operating leases - The Company leases office space under various operating leases expiring through May 2005. Total rent expense charged to operations during 2004 and 2003 was \$155,734 and \$74,196, respectively. Future minimum rental commitments are (approximately) as follows: (2005: \$123,624)

NOTE 12 - RELATED PARTY TRANSACTIONS

Options - The Company's five directors were granted 1,155,000 options to purchase shares at \$0.30. All of the options are outstanding as of December 31, 2004.

Warrants - Richco Investors Inc. has 1,085,000 "A" warrants to purchase shares of common stock and has 1,085,000 "B" warrants to purchase shares of common stock. The Company's former President has 80,000 "A" warrants to purchase shares of common stock and has 80,000 "B" warrants to purchase shares of common stock. Another entity controlled by one of the directors of this Company has 190,000 "A" warrants and 190,000 "B" warrants. All of the warrants are outstanding as of December 31, 2004, and subsequently expired (see Note 10).

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