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

Form 10QSB

May 12, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2005

Commission file number 0-26559

CIK No. 0001082603

CHINA MOBILITY SOLUTIONS, INC.

-----  
(Exact name of registrant as specified in this charter)

XIN NET CORP.

-----  
(Former name of Registrant)

Florida

330-751560

-----  
(State of other jurisdiction  
of incorporation or organization)

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

#900 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2

-----  
(Address of principal executive offices) (Zip Code)

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

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

YES X NO  
-----

As of March 31, 2005, there were 15,826,670 shares of \$0.001 par value common stock outstanding.

CHINA MOBILITY SOLUTIONS, INC.  
(FORMERLY XIN NET CORP.)  
INDEX TO QUARTERLY REPORT  
ON FORM 10-QSB  
March 31, 2005

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

The financial statements have been prepared by China Mobility Solutions, Inc. without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These financial statements include all of the adjustments which, in the opinion of management, are necessary to a fair presentation of financial position and results of operations. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with

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the audited financial statements at December 31, 2004, included in the Company's and Form 10-KSB.

### Cautionary and Forward Looking Statements

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

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

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

- (a) volatility or decline of the Company's stock price;
  - (b) potential fluctuation in quarterly results;
  - (c) failure of the Company to earn revenues or profits;
  - (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
  - (e) failure to commercialize its technology or to make sales;
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- (f) rapid and significant changes in markets;
  - (g) litigation with or legal claims and allegations by outside parties;
  - (h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services, the Company may not be able to attract or retain qualified executives and technology personnel, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the Company's businesses.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission,

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including the Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB filed by the Company in 2004 and any Current Reports on Form 8-K filed by the Company.

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES  
 (formerly Xin Net Corp.)  
 CONSOLIDATED BALANCE SHEETS  
 March 31, 2005 and December 31, 2004  
 (Prepared by Management)

Stated in U.S. dollars	2005
-----	
(Unaudited)	
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 5,6
Accounts receivable	
Prepaid Expenses and Other Current Assets	
Amount due from related parties	
-----	
Total Current Assets	5,7
Investment	
Property and Equipment, Net	
Goodwill	9
-----	
Total Assets	\$ 6,7
=====	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current Liabilities	
Accounts Payable and Other Accrued Liabilities	\$ 4
Deferred Revenue	2,0
-----	
Total Current Liabilities	2,4
Minority Interest	
	1
Commitments and Contingencies	
Stockholders' Equity	
Common Stock : \$0.001 Par Value	
Authorized : 50,000,000	
Issued and Outstanding : 16,321,670 (2004: 15,826,670)	
Additional Paid In Capital	8,9
Accumulated Deficit	(4,5
Accumulated Other Comprehensive Loss	(1
-----	
Total Stockholders' Equity	4,1
-----	
Total Liabilities and Stockholders' Equity	\$ 6,7
=====	

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES  
 (formerly Xin Net Corp.)  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 For the three months ended March 31, 2005 AND 2004  
 (Unaudited - Prepared by Management)

Stated in U.S. dollars	2005	2004
Revenue		
Mobile marketing services	\$ 1,052,529	\$
Tuition fee	74,678	60,1
	1,127,207	60,1
Cost of revenue		
Mobile marketing services	223,545	
Tuition fee	10,439	14,5
	233,984	14,5
Gross profit	893,223	45,6
Expenses		
Advertising and promotion	141,320	1,6
Consulting and professional	16,156	18,5
Depreciation	592	8
Foreign exchange loss (gain)	3,578	3,7
General and administrative	24,317	5,0
Rent	158,615	13,5
Salaries, wages and sub-contract	300,583	36,8
Website development	80,000	
	725,161	80,2
Operating Income (Loss)	168,062	(34,6)
Other Income		
Interest income	17,242	
Other income	1,984	2
	19,226	2
Income (Loss) before minority interest and discontinued operations	187,288	(34,3)
Minority interest	(126,547)	(5,0)
Income (Loss) from Continuing Operations	60,741	(39,4)
Discontinued operations		
Income from discontinued business press operations	-	20,4

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Net Income (Loss) Available to Common Stockholders	\$ 60,741	\$ (18,9
=====		
Earnings (loss) per share attributable to common stockholders:		
Earnings (loss) from continuing operations	\$ 0.00	\$ (0.
Earnings (loss) from discontinued operations	0.00	0.
-----		
Total basic and diluted	\$ 0.00	\$ (0.
=====		
Weighted average number of common shares outstanding:		
Basic and diluted	16,024,670	13,786,6
=====		

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES  
(formerly Xin Net Corp.)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
for the three months ended March 31, 2005 and December 31, 2004  
(Prepared by Management)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumulate Deficit
-----				
Balance, December 31, 2003	41,360,010	41,360	8,194,045	\$ (7,659,
Issuance of common stock for acquisition of Quicknet on June 23, 2004	6,120,000	6,120	544,680	
Reverse stock split 3:1 on June 24, 2004	(31,653,340)	(31,653)	31,653	
Net income for the year ended December 31, 2004				3,018,
Foreign currency translation adjustments				
-----				
Balance, December 31, 2004	15,826,670	\$ 15,827	\$ 8,770,378	\$ (4,640,
Issuance of common stock for cash on exercised of stock options on February 24, 2005 @\$0.30	495,000	495	148,005	
Net income for the three months ended March 31, 2005				60,
Foreign currency translation adjustments				

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Balance, March 31, 2005 16,321,670 \$ 16,322 \$ 8,918,383 \$ (4,580,

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES  
 (formerly Xin Net Corp.)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the three months ended March 31, 2005 AND 2004  
 (Unaudited - Prepared by Management)

Stated in U.S. dollars	2005
<hr/>	
Cash flows from operating activities	
Net income (loss)	\$ 60,7
Less: income from discontinued operations	
Adjustments to reconcile net loss to net cash	
Provided by (Used in) operating activities	
Depreciation and amortization	5
Translation adjustments	2,0
Minority interest	126,5
Changes in assets and liabilities	
Decrease in accounts receivable	5,3
Decrease in prepaid expenses and other current assets	8,4
Increase in amount due from related parties	(29,2
Increase in accounts payable	59,5
Decrease in deferred revenue	(95,4
Net cash provided by (used in) operating activities	138,6
<hr/>	
Cash flows from financing activities	
Issuance of common stock for cash	148,5
Net cash flows provided by financing activities	148,5
<hr/>	
Net cash provided by continuing operations	287,1
Net cash provided by discontinued operations	
<hr/>	
Increase in cash and cash equivalents	287,1
Cash and cash equivalents - beginning of period	5,380,6
Cash and cash equivalents - end of period	\$ 5,667,7
<hr/>	

Supplemental Information :  
 Cash paid for :

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Interest  
Income taxes

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

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CHINA MOBILITY SOLUTIONS, INC.  
(Previously known as Xin Net Corp.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2005  
( Unaudited )

## 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2004 included in its Annual Report on Form 10-KSB.

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

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

## 2. Property and Equipment

Property and equipment consist of the followings:-

	March 31, 2005	December 31, 2004
Equipment	\$ 24,832	\$ 24,832
Library	9,554	9,554
Furniture	9,975	9,975
	-----	-----
Total	44,361	44,361
Less: Accumulated depreciation	(38,395)	(37,812)
	-----	-----
Net book value	\$ 5,966	\$ 6,549
	=====	=====

The depreciation expense charged to continuing operations for the three-month period ended March 31, 2005 was \$592.

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CHINA MOBILITY SOLUTIONS, INC.  
 (Previously known as Xin Net Corp.)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2005  
 ( Unaudited )

3. Basic and Diluted Earnings (Loss) Per Share

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

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three months ended March 31, 2005 and 2004:

	Three months ended March 31,	
	2005	2004
Income (Loss) from continuing operations	\$ 60,741	\$ (39,405)
Income (Loss) from discontinued operations	-	20,488
	-----	
Net income (loss) for the period	60,741	(18,917)
Weighted-average number of shares outstanding	16,024,670	13,786,670
Effective of dilutive securities:		
Dilutive options - \$0.30	220,000	-
Dilutive warrants - \$2.25	-	-
	-----	
Dilutive potential common shares	220,000	-
	-----	
Adjusted weighted-average shares and assumed conversions	16,244,670	13,786,670
Basic income (loss) per share attributable to common shareholders:		
Income (loss) from continuing operations	\$ 0.00	\$ (0.00)
Income (loss) from discontinued operations	0.00	0.00
	-----	
Total basic income (loss) per share	\$ 0.00	\$ (0.00)
	=====	
Diluted income (loss) per share attributable to common shareholders:		
Income (loss) from continuing operations	\$ 0.00	\$ (0.00)
Income (loss) from discontinued operations	0.00	0.00
	-----	
Total diluted income (loss) per share	\$ 0.00	\$ (0.00)
	=====	

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

On June 24, 2004, the Company carried out a 3 for 1 reverse stock-split. Figures

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of prior periods have been retroactively restated to reflect the effect of the reverse stock-split.

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CHINA MOBILITY SOLUTIONS, INC.  
 (Previously known as Xin Net Corp.)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2005  
 ( Unaudited )

#### 4. Share Purchase Warrants

5,884,990 Series "A" warrants were expired on March 31, 2005. As of March 31, 2005, 10 Series "B" warrants were outstanding which entitle the holders to purchase a common share of the Company at \$2.25 each on or before March 31, 2006.

-----  

#### 5. Stock Options

On February 24, 2005, 495,000 stock options at \$0.30 each were exercised.

Options outstanding at March 31, 2005 were 660,000 with option price of \$0.30 each. No options were granted, canceled or forfeited during the three-month period ended March 31, 2005. The weighted average remaining contractual life is 2.3 years.

#### 6. Segment and Geographic Data

The Company's reportable segments are geographic areas and two operating segments, the latter comprised of mobile communication and ESL education. Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items, and, as it relates to segment profit (loss), income and expenses not allocated to reportable segments.

A. By geographic areas	Canada -----	China -----	Other -----	T -----
Three months ended March 31, 2005 -----				
Revenue from continuing operations	\$ 74,678	\$1,062,529	\$ -	\$ -
Operating income (loss)	7,212	257,183	(96,333)	-
Total assets	112,381	6,589,865	46,720	-
Depreciation	584	-	8	-
Interest income	4	17,238	-	-
Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	-
Three months ended March 31, 2004 -----				
Revenue from continuing operations	\$ 60,146	\$ -	\$ -	\$ -

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Operating income	(32,329)	(956)	(1,353)
Total assets	158,287	5,675,378	486,888
Depreciation	789	-	41
Interest income	1	-	-
Income from discontinued operations	20,488	-	-
Investment in equity method investee	-	-	253,524

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CHINA MOBILITY SOLUTIONS, INC.  
(Previously known as Xin Net Corp.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2005  
(Unaudited)

B. By operating segment	Mobile communications	ESL education	Other	T
	-----	-----	-----	-----
For the three months ended March 31, 2005				
-----				
Revenue from external customers	\$1,052,529	\$ 74,678	\$ -	\$ -
Intersegment revenue	-	-	-	-
Interest revenue	-	4	17,238	-
Interest expense	-	-	1	-
Depreciation	-	542	50	-
Segment operation profit (loss)	258,260	28,235	(118,433)	-
Segment assets	2,303,522	99,819	4,345,625	-
For the three months ended March 31, 2004				
-----				
Revenue from external customers	\$ -	\$ 60,146	\$ -	\$ -
Intersegment revenue	-	-	-	-
Interest revenue	-	1	-	-
Interest expense	-	-	-	-
Depreciation	-	741	89	-
Segment operation profit (loss)	-	(10,472)	(24,166)	-
Segment assets	-	31,383	6,289,170	-

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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

### RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2004 AS COMPARED TO THE QUARTER ENDED MARCH 31, 2003

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

### RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2005 AS COMPARED TO THE QUARTER ENDED MARCH 31, 2004

Revenues. The Company achieved revenues of \$1,127,207 in the first quarter 2005 compared \$60,146 in the first quarter 2004 in the form of net sales of Mobile marketing services and education courses (Windsor). The Company had operating income of \$168,062 in the first quarter 2005, resulting in an income of \$60,741.

#### Business Segments

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

Mobile marketing services	\$1,052,529
Windsor - ESL Education	\$74,678

The cost of revenue in each segment was:

Mobile marketing services	\$223,545
Windsor	\$10,439

The gross profit from each of the business segments was:

Mobile	\$828,984
Windsor	\$64,239
	-----

\$893,223

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Note: The Registrant owns 51% of the QuickNet. While revenues and costs of revenues are consolidated for reporting purposes, a 49% minority interest in the two companies exists, which, in effect, reduces the allocable gross profit by 49% or \$437,679.

Operating Expenses. The Company incurred operating expenses of \$725,161 in the first quarter 2005 compared to operating expenses of \$80,239 in the first quarter 2004.

Net Income. The net Income in the first quarter 2005 was \$ 60,741 compared to the net loss in the first quarter 2004 of \$ 18,917. The per share income for the first quarter 2005 was nominal, and the per share loss for the first quarter 2004 was nominal.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of \$5,667,735 at the quarter ended March 31, 2005.

The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. Other than cash capital, its other assets would be illiquid.

At the quarter ended March 31, 2005 it had \$5,769,093 in current assets and current liabilities of \$2,416,625.

The cash capital at the end of the period of \$5,667,735 will be used to fund continuing operations.

Net cash flows provided by operating activities increased to \$138,613 for the quarter ended March 31, 2005 from (\$10,521) for the quarter ended March 31, 2004.

#### Changes in Financial Condition:

At the end of the first quarter 2005 Company had assets \$6,748,966 compared to \$6,447,030 at year-end 2004. The current assets totaled \$5,769,093 at the end of the first quarter 2005 compared to \$5,466,574 at 2004 year-end. Total liabilities at the end of the first quarter 2004 were \$2,416,625 compared to \$2,452,522 at 2004 year-end. At March 31, 2005 the Company had \$ 5,667,735 in cash compared to \$5,380,622 2004 year-end.

#### Need for Additional Financing:

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

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

If future revenue declines, or operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through

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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 grow the new business of SMS services in China, it may use all of its available capital without generating a profit.

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

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### Market Risk:

The Company does not hold any derivatives or investments that are subject to market risk. The carrying values of any financial instruments, approximate fair value as of those dates because of the relatively short-term maturity of these instruments which eliminates any potential market risk associated with such instruments.

### Future Trends:

For the Education Services side, we have operated for over a year now, the competition is very fierce in the market. The Canadian government has tighten 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. The Canadian government also adopts more strict system to choose schools that can be funded by the government and every school needs to re-register with the government. There is no assurance that Windsor Education Academy will continue receiving government funding in the coming years.

### Need for Additional Financing:

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

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

If future revenue declines, or operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through the sale of assets it has, or enter into the sale of stock for additional capital, none of which may be feasible when needed. The Company has no specific management ability, 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 SMS services in China, it may use all of its available capital without generating a profit.

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

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and process, summarize, and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures and, as required by the rules of the SEC, evaluate their effectiveness.

Our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The evaluation included control areas in which we intend to make, changes to improve and enhance controls. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of a material weakness as discussed below.

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Internal Control Over Financial Reporting

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Material Weakness in Disclosure Controls

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Securities and Exchange Commission rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. While the Company has an internal control and procedures manual in place and management believes the controls and procedures are effective, the manual is not based upon a recognized internal control framework, because we have not found one that fits the limited scope of operations of our small Company. Accordingly, we conclude that we have a material weakness.

During the first half of the Company's fiscal year ending December 31, 2005 management will be revising the Company's internal controls and procedures document basing this revision upon a model framework created by the Committee of Sponsoring Organizations of the Treadway Commission (or "COSO") as is appropriate to our operations. This framework is entitled Internal

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Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and we believe, will satisfy the Securities and Exchange Commission requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

To address this material weakness management is committed to re-writing its internal controls and procedures manual based upon the Treadway Commission report as is appropriate to our operations during the first half of fiscal year ending December 31, 2005.

Except as noted above, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### PART II

#### OTHER INFORMATION

##### ITEM 1. 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

##### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

##### ITEM 5. OTHER INFORMATION

None

##### ITEM 6. EXHIBITS



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The following are filed as Exhibits to this Quarterly Report. The numbers refer to the Exhibit Table of Item 601 of Regulation S-K:

Exhibit 31 - Sarbanes Oxley Certifications

Exhibit 32 - Sarbanes Oxley Certifications

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Signatures

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

Dated: May 12, 2005

CHINA MOBILITY SOLUTIONS, INC.

by: /s/ Angela Du

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Angela Du,  
Secretary/Director

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