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XIN NET CORP
Form 10QSB
November 21, 2003

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: September 30, 2003

Commission file number 0-26559

CIK No. 0001082603

XIN NET CORP.

(Exact name of registrant as specified in this charter)

Florida

330-751560

(State of other jurisdiction
of incorporation or organization)

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

#950 - 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 September 30, 2003, there were 41,360,010 shares of \$0.001 par value common stock outstanding.

XIN NET CORP.
INDEX TO QUARTERLY REPORT
ON FORM 10-QSB
September 30, 2003

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

Stated in U.S. dollars	September 30, 2003	December 2002
	----- (Unaudited)	----- (Audited)
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$3,258,999	\$957,1
Investments	-	1,2
Prepaid Expenses and Other Current Assets	167,670	22,4
Assets of Discontinued Operations - Internet-related Services	2,435,485	2,186,3
Net Assets of Discontinued Operations - ISP	293,347	293,3
Total Current Assets	----- 6,155,501	----- 3,460,5

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Investment - at equity	253,524	319,6
Property and Equipment, Net	15,611	10,9
Goodwill	187,262	127,1
Total Assets	<u>\$6,611,898</u>	<u>\$3,918,1</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Other Accrued Liabilities	\$135,783	\$109,0
Deferred Revenue	66,282	37,7
Liabilities of Discontinued Operations - Internet-related Services	3,200,857	2,529,9
Security deposit from Beijing Sino Soft Intel Information Technology Ltd.	500,000	500,0
Security deposit from Sino-i.com Ltd.	2,417,000	
	<u>6,319,922</u>	<u>3,176,7</u>
Minority Interest	43,161	
Commitments and Contingencies	-	
Stockholders' Equity		
Common Stock : \$0.001 Par Value		
Authorized : 50,000,000		
Issued and Outstanding : 41,360,010 (2002: 41,360,010)	41,360	41,3
Additional Paid In Capital	8,194,045	8,194,0
Accumulated Deficit	(7,831,843)	(7,345,3
Accumulated Other Comprehensive Loss	(154,747)	(148,6
Total Stockholders' Equity	<u>248,815</u>	<u>741,3</u>
Total Liabilities and Stockholders' Equity	<u>\$6,611,898</u>	<u>\$3,918,1</u>

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XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

Stated in U.S. dollars

Three months ended
September 30,
2003 2002

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Revenue		
Tuition fee	\$ 78,040	\$-
Commercial press	89,718	
	-----	-----
	167,758	-
Cost of revenue		
Commercial press	31,992	-
Gross profit	135,766	-
Expenses		
Advertising and promotion	2,612	-
Consulting and professional	32,008	31,826
Depreciation	2,182	556
Foreign exchange (gain) loss	(1,759)	1,306
General and administrative	34,504	1,257
Rent	16,549	1,550
Salaries, wages and sub-contract	83,256	2,050
	-----	-----
	169,352	38,545
Operating Loss	(33,586)	(38,545)
Other Income and Expenses		
Interest income	3	-
Other income	2,497	-
Equity loss in undistributed earnings of investee company	(21,705)	(89,708)
	-----	-----
	(19,205)	(89,708)
Loss before minority interest and discontinued operations	(52,791)	(128,253)
Minority interest	21,198	-
	-----	-----
	(31,593)	(128,253)
Loss from Discontinued Operations - Internet-related Services	-	(41,806)
	-----	-----
Net Loss Available to Common Stockholders	\$ (31,593)	\$ (170,059)
	=====	=====
Loss per share attributable to common stockholders:		
Loss from continuing operations	\$ (0.00)	\$ (0.01)
Loss from discontinued operations	0.00	(0.00)
	-----	-----
Total basic and diluted	\$ (0.00)	\$ (0.01)
	=====	=====

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Weighted average number of common shares outstanding:

Basic and diluted

41,360,010 21,360,010
 =====

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XIN NET CORP. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
 (Unaudited)

Stated in U.S. dollars	2003	2002

Cash flows from operating activities		
Net loss from continuing operations	\$ (163,505)	\$ (300,330)
Adjustments to reconcile net loss to net cash Provided by (Used in) operating activities		
Depreciation and amortization	5,739	1,660
Non-cash income from Dawa Business Press Inc.	(476)	
Translation adjustments	(6,088)	(1,320)
Minority interest	(21,198)	
Equity loss of The Link Group, Inc.	66,076	170,500
Changes in assets and liabilities		
Decrease (Increase) in prepaid expenses and other current assets	(84,542)	18,630
Decrease in accounts payable	(29,270)	(68,780)
Increase in deferred revenue	28,557	
Increase in security deposits	2,417,000	
Net cash provided by (used in) operating activities	2,212,293	(179,640)

Cash flows from investing activities		
Purchases of property and equipment	(10,444)	(29,980)
Reduction in investment	1,266	49,810
Reduction in loan to ProtectServe Pacific Ltd.	-	360,400
Investment in The Link Group, Inc.	-	(600,300)
Net cash flows used in investing activities	(9,178)	(220,060)

Cash flows from financing activities		
Principal payments on capital lease obligations	-	(28,880)

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Net cash flows used in financing activities	----- -	----- (28,88
Net cash provided by (used in) continuing operations	----- 2,203,115	----- (428,59
Net cash provided by discontinued operations	----- 98,751	----- 70,68
Increase (Decrease) in cash and cash equivalents	----- 2,301,866	----- (357,91
Cash and cash equivalents - beginning of period	----- 957,133	----- 434,21
Cash and cash equivalents - end of period	----- \$3,258,999	----- \$76,30
	=====	=====
Supplemental Information :		
Cash paid for :		
Interest	\$6,573	\$9,47
Income taxes	10,978	7,17

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XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003

(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, 2002 included in its Annual Report on Form 10-KSB.

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

2. Property and Equipment

Property and equipment consists of the following :

	September 30, 2003	December 31, 2002
Equipment	\$ 30,946	\$ 20,284
Library	9,546	9,146

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Furniture	10,643	8,606
Total	51,135	38,036
Less : Accumulated depreciation	(35,524)	(27,130)
Net book value	\$ 15,611	\$ 10,906

The depreciation expense charged to continuing operations for the three-month and nine-month periods ended September 30, 2003 was \$2,182 and \$5,739 respectively.

3. 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").

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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 changes 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 increases to 38.6%. The Company accounted for its investment in Link on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses as follow at September 30, 2003:

Original cost of 15,370,675 shares of The Link Group, Inc.	\$ 800,300	
Equity in undistributed earnings of investee company	(546,776)	
Investment - at equity	\$ 253,524	

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4. 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., a company listed on the Hong Kong Stock Exchange for a total consideration of RMB 20 million (approximately US\$2,417,000). The transaction is still subject to the approval of shareholders. As of September 30, 2003, the Company has received RMB 20 million as a security deposit for the transaction. The decision to sell was due to the lack of funding and high competition in the market.

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

Sales proceeds		\$	2,417,000
Less :	Current assets		(1,992,665)
	Capital assets		(442,820)
Add :	Current liabilities		3,200,857

			3,182,372
Less: Write off of loan balance due from internet-related business			(3,084,544)

Estimated gain on disposal of internet-related business		\$	97,828
			=====

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The results of the discontinued internet-related services for the three-month and nine-month periods ended September 30, 2003 and 2002 are as follows:

	Three months ended September 30,		Nine months ended September	
	2003	2002	2003	2002
Revenue	\$ -	\$ 1,128,814	\$ 2,372,554	\$ 3,000,000
Operating Costs	-	(1,170,620)	(2,695,541)	(3,000,000)
	-----	-----	-----	-----
Net Loss	\$ -	\$ (41,806)	\$ (322,987)	\$ (0)
	=====	=====	=====	=====

5. Discontinued Operations - ISP Services

The Board of Directors of the Company decided to discontinue the unprofitable ISP services in the PRC. The Company's joint venture partner, Xin Hai, signed an agreement on June 22, 2001 to sell its ISP operation and related assets to a private company in Beijing, PRC for sales proceeds of \$700,000. The agreement is subject to payments being made by the other party at specified dates and to Company shareholders' approval. The net assets classified as held for sale have been grouped on the accompanying consolidated balance sheets as Net Assets of Discontinued Operations. As of September 30, 2003, \$500,000 has been received as a security deposit for the transaction. A provision of \$200,000 has been made

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against the balance of the sales proceeds as the Company has determined that the purchaser has a liquidity problem and may not be able pay the remaining balance.

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

Sales proceeds		\$	700,000
Less :	Capital assets		(320,797)
	Accounts receivable		(289,871)
Add :	Deferred revenue		317,321
Less :	Provision for doubtful debt		(200,000)

		\$	206,653
			=====

6. Basic and Diluted Earnings (Loss) Per Share

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

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three-month and nine-month periods ended September 30, 2003 and 2002:

	Three months ended September 30,		Nine mon
	2003	2002	20
Loss from continuing operations	\$ (31,593)	\$ (128,253)	\$ (16
Loss from discontinued operations	-	(41,806)	(32
	-----	-----	-----
Net loss for the year	(31,593)	(170,059)	(48
Weighted-average shares outstanding	41,360,010	21,360,010	41,3
Effect of dilutive securities :			
Dilutive options - \$1.30	-	-	
	F-6		
Dilutive warrants - \$0.50	-	-	
Dilutive warrants - \$0.75	-	-	
	-----	-----	-----
Dilutive potential common shares	-	-	
	-----	-----	-----
Adjusted weighted-average shares and assumed conversions	41,360,010	21,360,010	41,3

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Loss per share attributable to common shareholders:				
Loss from continuing operations		(0.00)	(0.01)	
Loss from discontinued operations		(0.00)	(0.00)	
		-----	-----	-----
Total basic and diluted loss per share	\$	(0.00)	\$ (0.01)	\$
		=====	=====	=====

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

7. Share Purchase Warrants

On April 1, 2003, the Company extended its outstanding 5,884,990 million Series "A" Share Purchase Warrants as follows:

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

8. Acquisition of Dawa Business Group Inc. ("Dawa")

On July 3, 2003, the Company acquired 51% of the outstanding and issued shares of Dawa in exchange for 49% of the outstanding and issued shares of the Company's subsidiary Windsor Education Academy Inc. ("Windsor").

Dawa's main business is the publication of a weekly Chinese community newspaper and a monthly magazine featuring education and employment in Vancouver's Chinese community. The Company acquired Windsor on December 10, 2002, a licensed school specializing in offering English as a Secondary Language ("ESL) courses to foreign students. The Company can promote Windsor and its affiliated educational products through the Dawa publications.

Dawa's financial information is incorporated into the consolidation of the Company effective June 30, 2003, as the transactions that occurred between June 30, 2003 to July 2, 2003 were immaterial. The value assigned to assets and liabilities acquired can be summarized as follows :

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

The information presented here should be read in conjunction with Xin Net Corp.'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

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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 SEPTEMBER 30, 2003 COMPARED TO THE SAME PERIOD IN 2002.

Revenues. The Company had \$78,040 in revenue in the period in 2003 from educational services, through its subsidiary, Windsor Education Academy Inc. ("Windsor"), which was acquired in late December 2002. The Company had \$89,718 in revenue in the period in 2003 from commercial press, through its subsidiary, Dawa Business Group Inc., ("Dawa"), which was acquired in early July 2003. The Company discontinued the internet-related operations in China. Please refer to Note 4 of the notes to the financial statements for details.

Cost of revenues. Cost of revenues was \$31,992 for the three months ended September 30, 2003, and represented costs incurred to generate Dawa revenues. Cost of revenues consists primarily of printing costs, materials, and labor. These costs are relatively fixed and do not fluctuate significantly.

Expenses. The Company incurred expenses in the quarter totaling \$169,352 in 2003 compared to \$38,545 in 2002. The largest components of expenses were consulting and professional fees, wages, salaries, and sub-contract services, rent expense, and corporate and administrative overhead. The increase in expenses was the result of the expenses incurred related to the operations of Windsor, which was acquired in late December 2002, and the commercial press operations of Dawa, acquired in early July 2003. The Company discontinued the internet-related operations in China and therefore all of the expenses related to these operation are included in the caption "Loss from Discontinued Operations-Internet-related Services" in the statement of operations.

Other income and expense. The Company had other income of \$2,497 in the period in 2003 compared to nil in 2002. The Company had a charge of (\$21,705) in 2003 and a charge of (\$89,708) in 2002 for equity loss in undistributed earnings of the investee company.

Net Losses. The loss before minority interest and discontinued operations was (\$52,791) in 2003 and (\$128,253) in 2002. The net loss to common shareholders, after minority interest deduction, was (\$31,593) in 2003 and in 2002, after a loss of (\$44,806) from discontinued operations, the loss was (\$170,059). The net loss per share in the quarter was nominal in 2003 and (\$.01) in 2002.

The Company expects the trend of losses to continue at the current rate until it can achieve business operations in which revenues can equal or exceed expenses, of which there can be no assurance.

Loss from discontinued operations. The loss from discontinued operations was nil in the period in 2003 and \$41,806 in 2002. Discontinued operations represents net income and expenses of the Company's internet-related operations in China. The Company entered into an agreement to sell the internet-related services provided in China to a subsidiary company of Sino-i.com Ltd., a company listed on the Hong Kong Stock Exchange for a total consideration of RMB 20 million

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(approximately US\$2,417,000). The transaction is still subject to the approval of shareholders. As of September 30, 2003, the Company has received RMB 20 million as a security deposit for the transaction. The decision to sell was due to the lack of funding and high competition in the market.

RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2003 AS COMPARED TO THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2002.

Revenues. The Company had \$221,323 in revenue in the period in 2003 from educational services. The Company had \$89,718 in revenue in the period in 2003 from commercial press, which was acquired in early July 2003. The Company discontinued the internet-related operations in China. Please refer to Note 4 of the notes to the financial statements for details.

Cost of revenues. Cost of revenues was \$31,992 for the nine months ended September 30, 2003, and represented costs incurred to generate Dawa revenues. Cost of revenues consists primarily of printing costs, materials, and labor. These costs are relatively fixed and do not fluctuate significantly.

Expenses. The Company incurred expenses in the period totaling \$406,232 in 2003 as compared to \$143,462 in 2002. The largest components of expenses were consulting and professional fees, wages, salaries, and sub-contract services, rent expense, and corporate and administrative overhead. The increase in expenses was primarily the result of the expenses incurred related to the operations of Windsor, which was acquired in late December 2002, and the commercial press operations of Dawa, acquired in early July 2003. The Company discontinued the internet-related operations in China and therefore all of the expenses related to these operations are included in the caption "Loss from Discontinued Operations-Internet-related Services" in the statement of operations.

Other income and expense. The Company had other income of \$8,545 in the period in 2003 compared to \$12,463 in 2002. The Company had a charge of (\$66,076) in 2003 and a charge of (\$170,500) in 2002 for equity loss in undistributed earnings of investee company.

Loss from Discontinued Operations. The loss from discontinued operations was (\$322,987) in the nine-month period in 2003 and (\$266,322) in the same period of 2002. Discontinued operations represents net income and expenses of the Company's internet-related operations in China. The Company entered into an agreement to sell the internet-related services provided in China to a subsidiary company of Sino-i.com Ltd., a company listed on the Hong Kong Stock Exchange for a total consideration of RMB 20 million (approximately US\$2,417,000). The transaction is still subject to the approval of shareholders. As of September 30, 2003, the Company has received RMB 20 million as a security deposit for the transaction. The decision to sell was due to the lack of funding and high competition in the market.

LOSS ON OPERATIONS

The Company had an operating loss of (\$127,183) in the period in 2003 compared to \$143,462 in the same period in 2002. The net loss in the period, after minority interest adjustment, was (\$163,505) in 2003 in the period, that when combined with loss on discontinued operations of (\$322,987) resulted in a (\$486,492) loss for the period in 2003. The loss in the period in 2002 was (\$300,337) that, when combined with the (266,322) loss on discontinued operations resulted in a loss of (\$566,659) in 2002. The net loss per share was (\$.01) in 2003 and (\$.03) in 2002 in the nine month period.

LIQUIDITY AND CAPITAL RESOURCES

The Company had net cash and cash equivalents of \$3,258,999 at September

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30, 2003, which will be used to fund continued operations. Management believes cash is adequate to satisfy its cash requirements for at least the next twelve months. The trend of operating losses could continue due to costs of equipment, design of new value-added services, start up operations for new locations and advertising and marketing, which precede development of additional revenue for the Company.

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The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. It did not raise any additional capital during the third quarter of 2003. It has equipment of \$15,611 on the books, which is not necessarily liquid at such value. It has an investment in The Link Group, Inc. valued at \$253,524. Other than cash capital, its other assets would be illiquid.

At the end of the quarter, it had \$6,155,501 in current assets. It had current liabilities of \$6,319,922, which included a security deposit of \$500,000 from the sale of its Internet Access Provision business in June 2001 and a security deposit of \$2,417,000 from the sale of its Internet related business in February 2003.

Net cash flows provided by continuing operations increased to \$2,203,115 in the first nine month period in 2003 from (\$428,594) in the corresponding period in 2002, primarily as a result of \$2,417,000 received as a security deposit for the sale of its Internet related business. Net cash flow used in investing activities decreased to (\$9,178) in first nine month period 2003 from (\$220,063) in the corresponding period in 2002, primarily due to cash paid (\$600,300) for its equity investment in The Link Group, Inc. during 2002 and offset by (\$360,400) representing a reduction in the loan to Protectserve Pacific Ltd. Net cash flow used in financing activities was \$0 in first nine month period of 2003 compared to \$28,885 for the nine month period of 2002, representing principal payments on capital lease obligations.

Changes in Financial Condition:

At the end of the third quarter 2003 Company assets had increased to \$6,611,898 compared to \$3,918,160 at year-end 2002. Current assets increased to \$6,155,501 at the end of third quarter 2003 compared to \$3,460,530 at year-end 2002 and total liabilities increased at end of third quarter 2003 to \$6,319,922 compared to \$3,176,765 at year-end 2002. At September 30, 2003 the Company had \$3,258,999 in cash compared to \$957,133 at year-end 2002. Although working capital decreased by \$448,186, positive changes resulted from the sale of its operations in China and the achievement of a private placement of stock for \$1,000,000 in late 2002.

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.

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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.

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

Market Risk:

The Company's investments in The Link Group, Inc. will be subject to market volatility. It does not hold any derivatives or other investments that are subject to market risk. The carrying values of any financial instruments, approximate fair value as of those dates because of the relatively short-term maturity of these instruments which eliminates any potential market risk associated with such instruments.

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Future Trends:

The Company will continue its cost-saving measures and ongoing efforts to increase revenues in order to achieve profitability. However the Company cannot assure that any profit on revenues can occur in the future. It may have to continue to advertise and promote its business and 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.

ITEM 3. CONTROLS AND PROCEDURES

a. Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

b. Changes in Internal Control over Financial Reporting:

There were no changes in the Company's internal control over financial reporting identified in connection with the Company evaluation of these controls as of the

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end of the period covered by this report that could have significantly affected those controls subsequent to the date of the evaluation referred to in the previous paragraph, including any correction action with regard to significant deficiencies and material weakness.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings -

On August 7, 2003, Xin Net Corp. was named as a defendant in the Supreme Court of British Columbia seeking C\$40,313 (US\$29,744) allegedly due on the contract between Edward Kheng Yoong Lee, Sidney Pak Lai Ho, Ricky Chung Hou NG, and Lilian Lee ("Plaintiffs") and XIN NET Corp. for the sale of Windsor Education Academy, Inc. XIN NET Corp. intends to vigorously defend the claim.

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Item 2. Changes in securities - 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 and reports on Form 8-K

(a) 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 31.1 - Sarbanes-Oxley Certification
Exhibit 31.2 - Sarbanes-Oxley Certification
Exhibit 32.1 - Sarbanes-Oxley Certification
Exhibit 32.1 - Sarbanes-Oxley Certification

(b) Reports on Form 8-K filed during the three months ended September 30, 2003. (incorporated by reference)

8-K filed 7-29-03

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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.

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Dated: November 20, 2003

XIN NET CORP.

by: /s/ Ernest Cheung

Ernest Cheung,
Secretary/Director