

Edgar Filing: XIN NET CORP - Form 10QSB

XIN NET CORP  
Form 10QSB  
May 24, 2004

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, 2004

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.)

#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 May 15, 2004, 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  
March 31, 2004

PART I. FINANCIAL INFORMATION

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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 XIN NET CORP. 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

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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 the audited financial statements at December 31, 2003, 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 XIN NET CORP. (the "Company") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

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

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

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

There is no assurance that the Company will be profitable, 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.

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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, 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.

### XIN NET CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

Stated in U.S. dollars	March 31, 2004
(Unaudited)	
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 3,304,019
Accounts receivable, net of allowance of \$22,505 (2003: \$58,678)	103,227
Prepaid Expenses and Other Current Assets	24,446
Assets to be disposed of	2,435,485
	-----
Total Current Assets	5,867,177
Investment - at equity	253,524
Property and Equipment, Net	12,416
Goodwill	187,436
	-----
Total Assets	\$ 6,320,553
	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current Liabilities	
Accounts Payable and Other Accrued Liabilities	\$ 243,082
Deferred Revenue	20,624
Liabilities to be disposed of	3,200,857
Security deposit from Sino-i.com Ltd.	2,415,800
	-----
	5,880,363
Minority Interest	43,190
Commitments and Contingencies	-
Stockholders' Equity	
Common Stock : \$0.001 Par Value	
Authorized : 50,000,000	
Issued and Outstanding : 41,360,010 (2003: 41,360,010)	41,360

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Additional Paid In Capital	8,194,045
Accumulated Deficit	(7,678,545)
Accumulated Other Comprehensive Loss	(159,860)
	-----
Total Stockholders' Equity	397,000
	-----
Total Liabilities and Stockholders' Equity	\$ 6,320,553
	=====

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XIN NET CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003  
(Unaudited)

Stated in U.S. dollars	2004
-----	
Revenue	
Tuition fee	\$ 60,146 \$
Commercial press	106,765
	-----
	166,911
Cost of revenue	
Tuition fee	14,545
Commercial press	18,830
	-----
	33,375
Gross profit	133,536
Expenses	
Consulting and professional	18,544
Depreciation	1,032
General and administrative	32,633
Rent	17,416
Salaries, wages and sub-contract	78,247
	-----
	147,872

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Operating Loss		(14,336)
Other Income and Expenses		
Interest income		1
Other income		461
Equity loss in undistributed earnings of investee company		-
		-----
		462
Loss before minority interest and discontinued operations		(13,874)
Minority interest		(5,043)
		-----
Loss from Continuing Operations		(18,917)
Discontinued operations		
Loss from Assets held for sale		-
		-----
Net Loss Available to Common Stockholders	\$	(18,917)
		=====
Loss per share attributable to common stockholders:		
Loss from continuing operations	\$	(0.00)
Loss from discontinued operations		0.00
		-----
Total basic and diluted	\$	(0.00)
		=====
Weighted average number of common shares outstanding:		
Basic and diluted		41,360,010
		=====

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XIN NET CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003  
(Unaudited)

Stated in U.S. dollars		2004		2003
		-----		-----
Cash flows from operating activities				
Net loss	\$	(18,917)	\$	(3
Less: loss from assets held for sale		-		2

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Adjustments to reconcile net loss to net cash Provided by (Used in) operating activities			
Depreciation and amortization		1,032	
Translation adjustments		3,903	
Minority interest		5,043	
Equity loss of The Link Group, Inc.		-	
Changes in assets and liabilities			
Increase in accounts receivable		(7,762)	
Decrease in prepaid expenses and other current assets		7,131	
Increase in accounts payable		18,042	1
Decrease in deferred revenue		(7,730)	(
Increase in security deposits		-	3
Net cash provided by operating activities		742	3
Cash flows from investing activities			
Purchases of property and equipment		-	
Reduction in investment		-	
Net cash flows used in investing activities		-	
Effect of exchange rate changes on cash		(400)	
Net cash provided by continuing operations		342	3
Net cash used in assets held for sale		-	(
Increase in cash and cash equivalents		342	3
Cash and cash equivalents - beginning of period		3,303,677	9
Cash and cash equivalents - end of period	\$	3,304,019	\$ 1,2
Supplemental Information :			
Cash paid for :			
Interest	\$	-	\$
Income taxes		-	

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XIN NET CORP. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2004

( Unaudited )

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### 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, 2003 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.

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 consists of the following :

	March 31, 2004	December 31, 2003
	-----	-----
Equipment	\$ 31,160	\$ 31,160
Library	9,554	9,554
Furniture	10,683	10,683
	-----	-----
Total	51,397	51,397
Less : Accumulated depreciation	(38,981)	(37,959)
	-----	-----
Net book value	\$ 12,416	\$ 13,438
	=====	=====

The depreciation expense charged to continuing operations for the three-month period ended March 31, 2004 was \$1,032.

### 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").

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



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at \$0.04 per share, or \$300,000, until February 15, 2002, was also granted to the Company, which was not exercised.

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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 of March 31, 2004, the investee company's financial statements were not sufficiently timely for the Company to apply the equity method currently. Therefore, the Company recorded its share of the investee's losses from the most recent available financial statements, which were the unaudited financial statements as of 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
	=====

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 total consideration of RMB 20 million (approximately US\$2,415,800), which the Company has received and classified as a security deposit as of March 31, 2004. The transaction is subject to the approval of shareholders.

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	\$
Less : Current assets	(1

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Add :	Capital assets	
	Current liabilities	
		-----
Less :	Write off of loan balance due from internet-related business	(3)
	Estimated gain on disposal of internet-related business	\$
		=====

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The results of the discontinued internet-related services for the three months ended March 31, 2004 and 2003 are as follows:

	2004	2003
Revenue	\$ -	\$ 1,079,846
Operating Costs	-	(1,312,864)
Net Loss	\$ -	\$ (233,018)
	=====	=====

5. 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, 2004 and 2003:

	2004	2003
Loss from continuing operations	\$ (18,917)	\$
Loss from discontinued operations	-	
Net loss for the year	(18,917)	
Weighted-average shares outstanding	41,360,010	2
Effect of dilutive securities :		
Dilutive options - \$1.30	-	
Dilutive warrants - \$0.50	-	

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Dilutive warrants - \$0.75	-		
Dilutive potential common shares	-		
Adjusted weighted-average shares and assumed conversions	41,360,010		4
Loss per share attributable to common shareholders:			
Loss from continuing operations	(0.00)		
Loss from discontinued operations	(0.00)		
Total basic and diluted loss per share	\$ (0.00)		\$

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

### 6. 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.

### 7. Segment and Geographic Data

The Company's reportable segments are geographic areas. 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.

	Canada	China	Other	
Three months ended March 31, 2004				
Revenue from continuing operations	\$166,911	\$ -	\$ -	\$
Operating loss	(12,028)	(955)	(1,353)	

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Total assets	158,287	5,675,378	486,888
Three months ended March 31, 2003			
-----			
Revenue from continuing operations	\$ 65,350	\$ -	\$ -
Operating loss	(49,332)	(786)	(10,055)
Total assets	33,647	3,825,596	856,935

### 8. Acquisition of Beijing Quicknet Telecommunication Corp. Ltd.

On February 18, 2004, the Company entered into a definitive agreement to acquire a 51% equity interest from the shareholders of a short message system ("SMS") provider, Beijing Quicknet Telecommunication Corp. Ltd. ("Quicknet"), located in Beijing, China, for a price of \$3,060,000 in form of issuing 6,120,000 shares of common stock of the Company at a deemed price of \$0.50 per share. 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 the remaining 49% equity interest in Quicknet within the second year from the closing date for \$5,000,000. As a general rule, the Company and 50% in cash. The final percentage of shares versus cash can be negotiated between both parties.

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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 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

**Revenues.** The Company achieved revenues of \$166,911 in the first quarter 2004 compared \$65,350 in the first quarter 2003 in the form of net sales of education courses (Windsor) and advertisement from the newspaper from its subsidiaries. The Company had operating cost of \$181,247 in the first quarter 2004, resulting in a loss of \$14,366.

#### Business Segments

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Pending Acquisition in 2004  
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During the quarter, the Company had revenues in two segments:

Windsor - ESL Education	\$60,146
Dawa - Chinese Language news	\$106,765

The cost of revenue in each segment was:

Windsor	\$14,545
Dawa	\$18,830

The gross profit from each of the business segments was:

Windsor	\$45,601
Dawa	\$87,935
	-----
	\$133,536

Note: The Registrant owns 51% of the equity in each of Windsor and Dawa. 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 \$65,433.

Operating Expenses. The Company incurred operating expenses of \$147,872 in the first quarter 2004 compared to operating expenses of \$125,523 in the first quarter 2003.

Loss from continuing operations. Loss from continuing operations for the first quarter 2004 was \$18,917 in contrast to the first quarter 2003 operating loss of \$80,570. A significant contributor to the decrease in loss from continuing operations is we treat the investment in The Link Group as equity. The loss in the first quarter 2003 from The Link Group, Inc. was \$26,396.

Loss from discontinued operations. Loss from discontinued operations in the first quarter 2003 was \$233,018 representing the results of the internet related services operations in China pending shareholder approval.

Net Loss. The net loss in the first quarter 2004 was \$ 18,917 compared to the net loss in the first quarter 2003 of \$ 313,588. The per share loss for the first quarter 2004 was nil, and the per share loss for the first quarter 2003 was \$0.01.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of \$3,304,019 at the quarter ended March 31, 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 quarter ended March 31, 2004 it had \$5,867,177 in current assets and current liabilities of \$5,880,363.

The cash capital at the end of the period of \$3,304,019 will be used to fund continuing operations. The sale of the ChinaDNS assets has provided more than US\$2 million in working capital.

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Net cash flows used in operating activities decreased to \$742 for the quarter ended March 31, 2004 from \$383,835 for the quarter ended March 31, 2003 .

Net cash flows used in investing activities for the quarter ended March 31, 2004 was nil representing there was no major investment made.

### Changes in Financial Condition:

At the end of the first quarter 2004 Company had assets \$6,320,553 compared to \$6,320,612 at year-end 2003. The current assets totaled \$5,867,177 at the end of the first quarter 2004 compared to \$5,866,214 at 2003 year-end. Total liabilities at the end of the first quarter 2004 were \$5,880,363 compared to \$5,870,451 at 2003 year-end. At March 31, 2004 the Company had \$ 3,304,019 in cash compared to \$3,303,677 2003 year-end.

### FUTURE PLANS

On Feb 15, 2004, the Company has entered into a Definitive Agreement 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 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 has accumulated more than 300,000 corporate accounts from its previous domain name registration and web hosting services in China. The Company wants to continue pursuing in Internet related businesses in China. Acquisition of Beijing Quicknet gives the Company an opportunity to capitalize in this rapidly growing market, it also gives the chance for Beijing Quicknet to utilize these corporate accounts and generate more revenue stream.

### 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.

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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. 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.

For the Dawa News Business Group Services side, the Company commenced operations in 2003 and based on the industry research available, there is fierce competition in the market. As more competitors come up in the market, competition on advertisement price, which is the main revenue stream for the News Services, become unfavorable to the Company. There is no assurance that the News business will continue to be profitable. According to the agreement signed between the Company and Dawa News Press, the Company has the right to reverse the agreement by disposing its interest in the News business, in exchange for regaining 49% interest in the Education business.

### 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 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.

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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.

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:

None.

(b) Reports on Form 8-K filed during the three months ended March 31, 2004. (incorporated by reference)

8-K filed 2-17-04  
8-K/A filed 2-25-04

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 24, 2004

XIN NET CORP.

by: /s/ Angela Du

-----  
Angela Du,  
Secretary/Director