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XIN NET CORP  
Form 10QSB  
August 22, 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: June 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	(I.R.S. Employer
of incorporation or organization)	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	<input checked="" type="checkbox"/>	NO
-----	-----	-----

As of June 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  
JUNE 30, 2003

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### PART 1. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

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

Stated in U.S. dollars	June 30, 2003	December 2002
	(unaudited)	(audit)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$3,337,992	\$957,133
Investments	-	1,266
Prepaid Expenses and Other Current Assets	62,273	22,422
Assets of Discontinued Operations - Internet-related Services	2,435,485	2,186,337

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Net Assets of Discontinued Operations - ISP	293,347	293,372
<hr style="border-top: 1px dashed black;"/>		
Total Current Assets	6,129,097	3,460,530
Investment - at equity	275,229	319,600
Property and Equipment, Net	13,082	10,906
Goodwill	127,124	127,124
<hr style="border-top: 1px dashed black;"/>		
Total Assets	\$6,544,532	\$3,918,160
<hr style="border-top: 3px double black;"/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Other Accrued Liabilities	\$ 133,571	\$109,044
Deferred Revenue	13,196	37,725
Liabilities of Discontinued Operations - Internet-related Services	3,200,857	2,529,996
Security deposit from Beijing Sino Soft Intel Information Technology Ltd.	500,000	500,000
Security deposit from Sino-i.com Ltd.	2,415,600	-
<hr style="border-top: 1px dashed black;"/>		
	6,263,224	3,176,765
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	41,360
Additional Paid In Capital	8,194,045	8,194,045
Accumulated Deficit	(7,800,250)	(7,345,351)
Accumulated Other Comprehensive Loss	(153,847)	(148,659)
<hr style="border-top: 1px dashed black;"/>		
Total Stockholders' Equity	281,308	741,395
<hr style="border-top: 1px dashed black;"/>		
Total Liabilities and Stockholders' Equity	\$6,544,532	\$3,918,160
<hr style="border-top: 3px double black;"/>		

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XIN NET CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

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(unaudited)

Stated in U.S. dollars	Three months ended June 30,	
	2003	2002
<hr style="border-top: 1px dashed black;"/>		
Revenue		
Tuition fee income	\$ 77,933	\$ -
Expenses		
Advertising and promotion	3,265	1,075
Consulting and professional	25,496	35,249
Depreciation	2,009	555
Foreign exchange loss	(14,096)	(2,691)
General and administrative	10,510	2,694
Rent	24,598	1,709
Salaries, wages and benefits	59,575	2,092
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	111,357	40,683
Operating Loss	(33,424)	(40,683)
Other Income and Expenses		
Interest income	4	525
Other income	53	12,463
Equity (loss) income in undistributed earnings of investee company	(17,975)	(105,144)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	(17,918)	(92,156)
Loss from Continuing Operations	(51,342)	(132,839)
Loss from Discontinued Operations - Internet-related Services	(89,969)	(155,230)
Net Loss Available to Common Stockholders	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	\$ (141,311)	\$ (288,069)
Loss per share attributable to common stockholders:		
Loss from continuing operations	\$ (0.00)	\$ (0.00)
Loss from discontinued operations	(0.00)	(0.01)
Total basic and diluted	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding:		
Basic and diluted	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	41,360,010	21,360,010
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

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XIN NET CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2003 AND YEARS ENDED DECEMBER 31, 2002 AND 2001  
(Unaudited)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumulated Deficit	Accumul Othe Comprehe Incom
Balance, December 31, 2000	21,360,010	21,360	7,214,045	(4,926,669)	(152,250)
Net loss				(1,510,903)	
Translation Adjustments					3,660
Balance, December 31, 2001	21,360,010	21,360	7,214,045	(6,437,572)	(148,580)
Private placement for cash at \$0.05 per share in October 2002	20,000,000	20,000	980,000		
Net loss				(907,779)	
Translation Adjustments					(7,000)
Balance, December 31, 2002	41,360,010	41,360	8,194,045	(7,345,351)	(148,650)
Net loss				(454,899)	
Translation Adjustments					(5,180)
Balance, June 30, 2003	41,360,010	\$41,360	\$8,194,045	\$ (7,800,250)	\$ (153,830)

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XIN NET CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002  
(unaudited)

Stated in U.S. dollars	2003
Cash flows from operating activities	
Net loss from continuing operations	\$ (131,912)
Adjustments to reconcile net loss to net cash Provided by (Used in) operating activities	
Depreciation and amortization	3,557
Translation adjustments	(5,188)
Equity (income) loss of The Link Group, Inc.	44,371
Changes in assets and liabilities	
Decrease (Increase) in prepaid expenses and other current assets	(39,851)

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Increase (Decrease) in accounts payable	24,527
Decrease in deferred revenue	(24,529)
Increase in security deposits	2,415,600
Net cash provided by (used in) continuing operations	2,286,575
Net cash provided by discontinued operations	98,726
Net cash provided by (used in) operating activities	2,385,301
Cash flows from investing activities	
Purchases of property and equipment	(5,708)
Reduction in investment	1,266
Reduction in loan to ProtectServe Pacific Ltd.	-
Investment in The Link Group, Inc.	-
Net cash flows used in investing activities	(4,442)
Cash flows from financing activities	
Principal payments on capital lease obligations	-
Net cash flows used in financing activities	-
Increase (Decrease) in cash and cash equivalents	2,380,859
Cash and cash equivalents - beginning of period	957,133
Cash and cash equivalents - end of period	\$ 3,337,992
Supplemental Information :	
Cash paid for :	
Interest	\$ 6,399
Income taxes	10,978

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XIN NET CORP. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
June 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

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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 :

	June 30, 2003	December
Equipment	\$ 24,290	\$
Library	9,540	
 Furniture	 9,924	
	-----	
Total	43,754	
Less : Accumulated depreciation	(30,672)	
	-----	
Net book value	\$ 13,082	\$
	=====	

The depreciation expense charged to continuing operations for the three-month and six-month periods ended June 30, 2003 was \$2,009 and \$3,557 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").

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.

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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.

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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 21, 2003, Link issued 17,500,000 common shares and cancelled 14,000,000 common shares and thereafter the Company's holding in Link correspondingly changes to 32.32%. 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 June 30, 2003:

Original cost of 15,370,675 shares of The Link Group, Inc.	\$	800,300
Equity in undistributed earnings of investee company		(525,071)
		-----
Investment - at equity	\$	275,229
		=====

The loss incurred by Link for the three-month ended June 30, 2003 has not been reviewed by their auditors. Management believes that there will not be any material change made by the auditors after the review. If there is any change that is material, the Company will file the revised financial statements.

#### 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\$2,500,000). The transaction is still subject to the approval of shareholders. As of June 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	\$	2,500,000
Less :		
Current assets		(2,286,013)
Capital assets		(442,820)
Add :		
Current liabilities		3,200,859
		-----
		2,972,026
Less : Write off of loan balance due from internet-related business		(3,084,544)
		-----
Estimated loss on disposal of internet-related business	\$	(112,518)
		=====

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



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	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenue	\$ 1,292,708	\$ 1,111,286	\$ 2,372,554	\$ 2,372,554
Operating Costs	(1,382,677)	(1,266,516)	(2,695,541)	(2,695,541)
	-----	-----	-----	-----
Net Loss	\$ (89,969)	\$ (155,230)	\$ (322,987)	\$ (322,987)
	=====	=====	=====	=====

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 June 30, 2003, \$500,000 has been received as a security deposit for the transaction. A provision of \$200,000 has been made 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	(289,896)
Add :	Deferred revenue	317,321
Less :	Provision for doubtful debt	(200,000)
		-----
		\$ 206,628
		=====

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.

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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

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six-month periods ended June 30, 2003 and 2002:

	Three months ended June 30,	
	2003	2002
Loss from continuing operations	\$ (51,342)	\$ (132,839) \$
Loss from discontinued operations	(89,969)	(155,230)
Net loss for the year	(141,311)	(288,069)
Weighted-average shares outstanding	41,360,010	21,360,010
Effect of dilutive securities :		
Dilutive options - \$1.30	-	-
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
Loss per share attributable to common shareholders:		
Loss from continuing operations	(0.00)	(0.00)
Loss from discontinued operations	(0.00)	(0.01)
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. Total Amount Advanced to Joint Venture

As at June 30, 2003, the total amount advanced to the joint venture project is \$3,084,544.

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### 9. Segment and Geographic Data

The Company's reportable segments are geographic areas that provide English as a Second Language ("ESL") courses to foreign students in Canada. 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.

	China		Canada		Other
For the three months ended June 30, 2003					
Revenue from continuing operations \$	-	\$	77,933	\$	-
Operating Loss	(122)		(21,356)		(11,946)
Total Assets	5,976,953		57,233		510,346
Depreciation / Amortization	-		1,830		179
Interest Income	-		2		2
For the three months ended June 30, 2002					
Revenue from continuing operations \$	-	\$	-	\$	-
Operating Loss	(1,081)		(3,042)		(36,560)
Total Assets	2,347,030		8,885		817,780
Depreciation / Amortization	-		65		490
Interest Income	-		-		525
For the six months ended June 30, 2003					
Revenue from continuing operations \$	-	\$	143,283	\$	-
Operating Loss	(908)		(70,688)		(22,001)
Total Assets	5,976,953		57,233		510,346
Depreciation / Amortization	-		3,200		357
Interest Income	-		4		4
For the six months ended June 30, 2002					
Revenue from continuing operations \$	-		\$ -		\$ -
Operating Loss	(1,594)		(8,351)		(94,972)
Total Assets	2,347,030		8,885		817,780
Depreciation / Amortization	-		129		980
Interest Income	1		-		1,161

10. Subsequent Events

On July 3, 2003, the Company acquired 51% of the outstanding and issued shares of Dawa Business Group Inc. ("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 ESL courses to foreign students. The Company can promote Windsor and its affiliated educational products through the Dawa publications.

11. Contingency

The Company has been sued as a defendant in the Supreme Court of British Columbia seeking C\$40,313 (\$29,744) allegedly due on the contract between the ex-owners of Windsor and the Company for the sale of Windsor. The Company intends to vigorously defend the claim.

As the Company considers that the claim is without merit, no provision has been made in the financial statements for the amount involved.

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

The Company had \$77,933 in revenue in the period in 2003 from educational services, which division it acquired in early 2003. The Company discontinued operations in China for its domain name registration service within its InforNet subsidiary, since it has been sold, and results of 2002 revenues (now discontinued) for the period have been omitted.

The Company incurred expenses in the quarter totalling \$111,357 in 2003

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compared to \$40,683 in 2002. These expenses were those of the registrant (in 2002), not of the discontinued operations in China. The largest components of expenses were consulting and professional of \$25,496 in 2003 and \$35,249 in 2002, wages, salaries, and benefits of \$59,575 in 2003 compared to \$2,092 in 2002, general and administrative of \$10,510 in 2003 and \$2,694 in 2002, rent of \$24,598 in 2003 and \$1,709 in 2002, foreign exchange loss of \$14,096 in 2003 and \$2,691 in 2002, and advertising and promotion of \$3,265 in 2003 and \$1,075 in 2002.

The Company had other income of \$53 in the period in 2003 compared to \$12,463 in 2002. The Company had a loss of \$17,975 in 2003 and a loss of \$105,144 in 2002 for equity loss in undistributed earnings of investee company.

The loss from continuing operations was \$51,342 in 2003 in the period compared to \$132,839 in 2002. The loss from discontinued operations was \$89,969 in the period in 2003 and \$155,230 in 2002. Total net loss was \$141,311 in the quarter in 2003 compared to \$288,069 in the same quarter in 2002. The loss per share was nominal in 2003 and 2002 on continuing operations. The loss per share was nominal in the quarter of 2003 and \$0.01 in the same period of 2002 on discontinued operations.

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

The Company had \$143,283 in revenue in the period in 2003 from educational services, which division it acquired in early 2003. The Company discontinued operations in China for its domain name registration service within its InforNet subsidiary, since it has been sold, and results of 2002 revenues (now discontinued) for the period have been omitted.

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The Company incurred expenses in the period totalling \$236,880 in 2003 compared to \$104,917 in 2002. These expenses were those of the registrant (in 2002), not of the discontinued operations in China. The largest components of expenses were consulting and professional of \$46,426 in 2003 and \$70,017 in 2002, wages, salaries, and benefits of \$112,494 in 2003 compared to \$8,993 in 2002, general and administrative of \$22,684 in 2003 and \$21,615 in 2002, rent of \$43,147 in 2003 and \$4,234 in 2002, foreign exchange loss of \$4,455 in 2003 and \$2,126 in 2002, and advertising and promotion of \$13,027 in 2003 and \$1,075 in 2002.

The Company had other income of \$6,048 in the period in 2003 compared to \$12,463 in 2002. The Company had a loss of \$44,371 in 2003 and a loss of \$80,972 in 2002 for equity loss in undistributed earnings of investee company.

The loss from continuing operations was \$131,912 in 2003 in the period compared to \$172,084 in 2002. The loss from discontinued operations was \$322,987 in the period in 2003 and \$224,516 in 2002. Total net loss was \$454,899 in the period in 2003 compared to \$396,600 in the same period in 2002. The loss per share was nominal in the period of 2003 and \$0.01 in the same period 2002 on continuing operations. The loss per share was \$0.01 in the period of 2003 and the same period of 2002 on discontinued operations.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had net cash and cash equivalents of \$3,337,992 at June 30, 2003.

The Company has no other capital resources other than the ability to use

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its common stock to achieve additional capital raising. It did not raise any additional capital during the second quarter of 2003. It has equipment of \$13,082 on the books, which is not necessarily liquid at such value. It has an investment in The Link Group, Inc. valued at \$275,229. Other than cash capital, its other assets would be illiquid.

At the end of the quarter, it had \$6,129,097 in current assets. It had current liabilities of \$6,263,224, 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 \$2,415,600 from the sale of its Internet related business in February 2003.

The cash capital at the end of the quarter of \$3,337,992 will be used to fund continued operations, which management believes 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 & marketing which precede development of additional revenue for the Company.

Net cash flows provided by continuing operations increased to \$2,286,575 in the first six month period in 2003 from (\$103,556) in the corresponding period in 2002. Net cash flow used in investing activities increased to (\$4,442) in first six month period 2003 from (\$207,240) in the corresponding period in 2002. Net cash flow used in financing activities increased to \$0 in first six month period of 2003 compared to (\$28,885) in first six month period of 2002.

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### Changes in Financial Condition:

At the end of the second quarter 2003 Company assets had increased to \$6,544,532 compared to \$3,918,160 at year-end 2002. The current assets \$6,129,097 at the end of second quarter 2003 compared to \$3,460,530 at year-end 2002. Total liabilities at end of second quarter 2003 were \$6,263,224 compared to \$3,176,765 at year-end 2002. At June 30, 2003 the Company had \$3,337,992 in cash compared to \$957,133 at year-end 2002. The 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. But 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.

The effects of inflation have not had a material impact on its operation,

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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.

### 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. 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.

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### ITEM 3. CONTROLS AND PROCEDURES

The President, the chief executive officer and the chief financial officer of the Company, have concluded based on their evaluation as of a date within 90 days prior to the date of the filing of this Report, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Registrant's management, including the president, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

## 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

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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.

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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 June 30, 2003. (incorporated by reference)

8-K filed 4-4-03

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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.

Dated: August 19, 2003

XIN NET CORP.

by: /s/ Ernest Cheung

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Ernest Cheung,  
Secretary/Director

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