Camelot Entertainment Group, Inc.
Form 10-Q
December 15, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission file number 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	52-2195605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 Vantis, Suite 130
Aliso Viejo, California 92656

(Address of principal executive offices (zip code))

(949) 334 - 2950

(Registrant's telephone number, including area code)

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

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller Reporting Company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of September 30, 2008 the Registrant had outstanding 71,853,608 shares of Common Stock, $0.001 par value. The registrant had outstanding 3,695,521 shares of Preferred Stock series A, B, and C par value $0.001.

CAMELOT ENTERTAINMENT GROUP, INC.

INDEX TO FORM 10-Q

THIS REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INCLUDE BUT ARE NOT LIMITED TO STATEMENTS CONCERNING OUR BUSINESS OUTLOOK OR FUTURE ECONOMIC PERFORMANCE; ANTICIPATED PROFITABILITY, REVENUES, EXPENSES OR OTHER FINANCIAL ITEMS; AND STATEMENTS CONCERNING ASSUMPTIONS MADE OR EXCEPTIONS AS TO ANY FUTURE EVENTS, CONDITIONS, PERFORMANCE OR OTHER MATTERS WHICH ARE "FORWARD-LOOKING STATEMENTS" AS THAT TERM IS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN HISTORICAL FINANCIAL INFORMATION, MAY BE MARKET TO BE FORWARD-LOOKING STATEMENTS. THE WORDS "BELIEVES", "PLANS", "ANTICIPATES", "EXPECTS", AND SIMILAR EXPRESSIONS HEREIN ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES, AND OTHER FACTORS, WHICH WOULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.

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Camelot Entertainment Group, Inc.
(A Development Stage Company)
Balance Sheets

ASSETS				
		September 30, 2008 Unaudited		December 31, 2007 Audited
Current Assets				
Cash	$	126	$	122
Prepaid Expenses		-		6,424
Total Current Assets		126		6,546
School District Deposit		-		50,000
Deferred Financing Costs		-		54,984
Scripts Costs		-		79,700
Total other assets		-		184,684
Total Assets	$	126	$	191,230
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current Liabilities				
Accounts Payable and Accured Liabilities	$	205,705	$	176,999
Accrued Expenses to Related Parties		574,530		350,000
Note Payable to Shareholder		298,500		300,000
Shareholder Advances		11,200		134,757
Convertible Note Payable		15,000		-
Total Current Liabilities		1,104,935		961,756
Long Term Liabilities				
Derivative Liability - Preferred Stock Series A, B, and C		103,864		726,223
Secured Convertible Note Payable - NIR Fairhill net of discount		150,829		295,970
Derivative Liability - Compound		379,406		542,661
Derivative Liability - Warrant		89,927		50,759
Total Long Term Liabilities		724,026		1,615,613
Total Liabilities		1,828,961		2,577,369
Series A, B, C Convertible Preferred Stock		32,904		28,152
par value $.001 per share, 35,000,000 shares authorized: 1,347,510, 1,196,510 and 1,151,500				
shares issued and 294,020, 281,520 and 0 outstanding as of September 30, 2008 and December 31, 2007, respectively.				

Stockholders' Deficit		
Common Stock; Par Value $.001 Per Share; Authorized 500,000,000 Shares; 72,161,942 and 2,553,396 Shares Issued; and 71,853,608 and 2,245,063 Outstanding at September 30, 2008 and December 31, 2007, respectively.	71,854	224,506
Additional Paid-In Capital	14,041,174	13,637,649
Deficit Accumulated During the Development Stage	(15,974,767)	(16,276,446)

2005

2004

Revenue

Mobile marketing services

$

1,190,328

$

888,082

$

3,376,829

$

888,082

Tuition fee

53,100

95,383

160,408

218,298

1,243,428

983,465

3,537,237

1,106,380

Cost of revenue

Mobile marketing services	368,552	236,229	903,022	236,229
Tuition fee	16,596	15,268	43,614	43,641
	385,148	251,497	946,636	279,870
Gross profit	858,280	731,968	2,590,601	826,510

Expenses

Advertising and promotion	253,970	273,696	663,402	280,471
Commission	359,500	-	359,500	-
Consulting and professional	186,736	17,463	214,421	56,800
Depreciation	765	2,255	1,933	3,890
Fair value of warrants issued				

	6,891,470	-	6,891,470	-
Foreign exchange gain	(97,536)	(17,219)	(92,942)	(8,801)
General and administrative	223,239	1,682	280,132	59,761
Interest - intrinsic value of the conversion feature	1,052,863	-	1,052,863	-
Investor relations	87,825	-	175,650	-

Rent	224,421	124,499	554,370	150,060
Salaries, wages and sub-contract	344,797	307,532	1,034,949	379,198
Stock-based compensation	126,000	-	126,000	-
Website development	-	-	80,000	-
	9,654,050	709,908	11,341,748	921,379

Operating Income (Loss)

(8,795,770
)

22,060

(8,751,147
)

(94,869
)

Other Income and Expenses

Interest income

24,211

30,290

60,625

59,846

Other income

1

9

20

1,470

Equity loss

-

-

-

(81,273
)

24,212

30,299

60,645

(19,957
)

Income (Loss) before minority interest and discontinued operations

(8,771,558
)

52,359

(8,690,502
)

(114,826
)

Minority interest

(6,141
)

-

(138,469
)

4,634

Income (Loss) from Continuing Operations

(8,777,699
)

52,359

(8,828,971
)

(110,192
)

Discontinued operations

Loss from discontinued business press operations

-

-

-

(41,654
)

Net Income (Loss) Available to Common Stockholders

$
(8,777,699
)
$
52,359

$
(8,828,971
)
$
(151,846
)

Earnings (loss) per share attributable to common stockholders:

Earnings (loss) from continuing operations

$
(0.49
)
$
0.00

$
(0.52
)
$
(0.01

)

Earnings (loss) from discontinued operations

0.00

0.00

0.00

-0.00

Total basic and diluted

$
(0.49
)
$
0.00

$
(0.52
)
$
(0.01
)

Weighted average number of common shares outstanding:

Basic and diluted

17,929,279

15,826,670

16,996,285

14,531,196

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the nine months ended September 30, 2005 and December 31, 2004
(Unaudited)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Subscription Receivable	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2003	41,360,010	$ 41,360	$ 8,194,045	$ -	$ (7,659,628)	$ (163,763)	$ 412,014
Issuance of common stock for acquisition of Quicknet on June 23, 2004	6,120,000	6,120	544,680				550,800
Reverse stock split 3:1 on June 24, 2004	(31,653,340)	(31,653)	31,653				-
Net income for the year ended December 31, 2004					3,018,672		3,018,672
Foreign currency translation adjustments						(19,769)	(19,769)
Balance, December 31, 2004	15,826,670	$ 15,827	$ 8,770,378		$ (4,640,956)	$ (183,532)	$ 3,961,717
Issuance of common stock for cash on exercise of stock options on February 24, 2005 @$0.30	495,000	495	148,005				148,500
Issuance of common stock for services rendered	600,000	600	350,700				351,300
	500,000	500	199,500				200,000

Issuance of common stock for cash on exercise of stock options on September 1, 2005 @$0.40							
Issuance of common stock for cash on exercise of stock options on September 1, 2005 @$0.35	2,590,000	2,590	903,910				906,500
Stock-based compensation			126,000				126,000
Fair value of Series 'C' warrants issued			3,254,305				3,254,305
Fair value of Series 'D' warrants issued			3,637,165				3,637,165
Intrinsic value of the ocnversion feature of the convertible debentures			1,052,863				1,052,863
Subscription receivable upon the exercise of stock options on September 1, 2005 @$0.35				(140,000)			(140,000)
Net loss for the nine months ended September 30, 2005					(8,828,971)		(8,828,971)
Foreign currency translation adjustments						(13,070)	(13,070)
Balance, September 30, 2005	20,011,670	$ 20,012	18442826	$ (140,000)	-13469927	$ (196,602)	$ 4,656,309

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2005 AND 2004
(Unaudited)

Stated in U.S. dollars		**2005**		**2004**
Cash flows from operating activities				
Net loss	$	(8,828,971)	$	(151,846)
Less: loss from discontinued operations		-		41,654
Adjustments to reconcile net loss to net cash				
Provided by (Used in) operating activities				
Depreciation and amortization		1,933		3,890
Stock-based compensation		126,000		-
Fair value of warrants issued		6,891,470		-
Interest - intrinsic value of the conversion feature of the convertible debentures		1,052,863		-
Translation adjustments		(13,070)		(5,600)
Minority interest		138,469		(4,634)
Non-cash operating expenses		191,650		-
Equity loss		-		81,273
Changes in assets and liabilities				
(Increase)Decrease in accounts receivable		28,356		139,688
(Increase)Decrease in prepaid expenses and other current assets		(139,680)		10,509
Increase in amount due from (to) related parties		(2,709)		(102,416)
Decrease in accounts payable		1,982,049		(155,851)
Increase in deferred revenue		362,760		311,974
Increase in liabilities to be disposed of		-		137,926
Net cash provided by (used in) operating activities		1,791,120		306,567
Cash flows from investing activities				
Cash transferred in from acquisition of Quicknet		-		1,477,355
Purchases of remaining interest of Quicknet		(4,000,000)		-
Purchases of property and equipment		(2,346)		(1,727)
Net cash flows provided by financing activities		(4,002,346)		1,475,628
Cash flows from financing activities				
Issuance of common stock for cash		1,115,000		-
Issuance of convertible debentures for cash		3,350,000		-
Net cash flows provided by financing activities		4,465,000		-
Effect of exchange rate changes on cash		127		(1,052)
Net cash provided by continuing operations		2,253,901		1,781,143
		-		(10,656)

Net cash provided by (used in) discontinued operations				
Increase in cash and cash equivalents		2,253,901		1,770,487
Cash and cash equivalents - beginning of period		5,380,622		3,303,677
Cash and cash equivalents - end of period	$	7,634,523	$	5,074,164
Supplemental Information :				
Cash paid for :				
Interest	$	2	$	-
Income taxes		-		-
Non-cash investment :				
Issuance of 2,040,000 common shares for the acquisition of Quicknet	$	-	$	1,224,000
Issuance of 600,000 common shares for services rendered		351,300		-

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

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CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
(formerly Xin Net Corp.)
CONSOLIDATED STATEMENTS OF DEFICIT
For the three months and nine months ended September 30, 2005 AND 2004
(Unaudited)

Stated in U.S. dollars	**Three months ended September 30, 2005**	**September 30, 2004**	**Nine months ended September 30, 2005**	**September 30, 2004**
Deficit, Beginning of period	$ (4,692,228)	$ (7,863,833)	$ (4,640,956)	$ (7,659,628)
Net Income (Loss) Available to Common Stockholders	(8,777,699)	52,359	(8,828,971)	(151,846)
Deficit, End of period	$ (13,469,927)	$ (7,811,474)	$ (13,469,927)	$ (7,811,474)

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CHINA MOBILITY SOLUTIONS, INC.
(Previously known as Xin Net Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

1. Basis of Presentation

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

The unaudited condensed consolidated financial statements include China Mobility Solutions, Inc. and its subsidiaries. All 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 stockholders' equity.

2. Significant Accounting Policies

(i) Accounting for convertible securities with beneficial conversion features

According to Emerging Issue Task Force ("EITF") Issue 98-5, the beneficial conversion features embedded in convertible securities should be valued at the issue date. Embedded beneficial conversion features should be recognized and measured as follows:

(a) Allocate a portion of the proceeds equal to the intrinsic value of the embedded beneficial conversion feature to additional paid-in-capital. The intrinsic value is calculated as the difference between the conversion price and the fair value of the common stock or other securities into which the security can be converted at the date when the investors have committed to purchase the convertible securities based on the terms specified, multiplied by the number of shares into which the security can be converted.

(b) If the intrinsic value of the beneficial conversion feature is greater than the proceeds from the sale of the convertible instrument, the discount assigned to the beneficial conversion feature should not exceed the amount of the proceeds allocated to the convertible instruments. A discount, if any, is amortized beginning on the security's issuance date to the earliest conversion date.

3. Property and Equipment

	September 30,	December

		2005		31, 2004
Equipment	$	26,964	$	24,832
Library		9,554		9,554
Furniture		10,187		9,975
Total		46,705		44,361
Less : Accumlated depreciation		(39,717)		(37,812)
Net book figures	$	6,988	$	6,549

The depreciation expenses charged to continuing operations for the three-month and nine-month periods ended September 30, 2005 were $765 and $1,933 respectively.

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CHINA MOBILITY SOLUTIONS, INC.
(Previously known as Xin Net Corp.)
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September 30, 2005
(Unaudited)

4. Acquisition of the remaining 49% ownership of Beijing Quicknet Telecommunication Corp. Ltd. ("Quicknet")

On June 23, 2004, the Company completed the acquisition of 49% equity interest from the shareholders of Beijing Quicknet Technology Development Corp. ("Quicknet"), located in Beijing, China by signing a Purchase Agreement (the "Quicknet Purchase Agreement"). Quicknet is engaged in the development of software for mobile/wireless communication and for Short Message Services ("SMS"). The Company acquired the 49% equity interest from Quicknet shareholders in exchange for the Company's issuance of 6,120,000 shares of common stock of the Company at a deemed price of $0.50 per share (2,040,000 post-reverse split shares at a market price of $0.27 per share for a total of $550,800). In June 2004, the Company signed a Purchase Agreement (the "Chinaco Purchase Agreement") with Beijing Shi Ji Rong Chuang Service & Technology Co., Ltd., a local China company ("Chinaco"), which owned 2% of the equity interest of Quicknet through purchasing a 1% interest from each of the two unaffiliated shareholders of Quicknet, Mr. Bo Yu and Mr. Fang Hu. Under the Chinaco Purchase Agreement, the Company was granted the right to purchase 100% of the equity of Chinaco for a nominal consideration when Chinese law permits such sale. Chinaco is owned by two senior officers of the Company who have Chinese citizenship. Due to current government restrictions on foreign ownership of telecommunication companies in China, the Company was not permitted to acquire the additional 2% of the equity interest of Quicknet that is still held by Chinaco. Therefore, Chinaco has granted an unconditional, irrevocable proxy, without time limit, to the Company. Through the above-described proxy, the Company can appoint all directors and officers of Quicknet and therefore directly and indirectly controls 51% of the equity interest of Quicknet through directly owning 49% equity interest and indirectly owning the remaining 2% equity interest, through the contract arrangements with Chinaco.

Under the Quicknet Purchase Agreement, the Company also had an option to acquire the remaining 49% equity interest in Quicknet from the Quicknet Shareholders within the first year for $4,000,000. The Company had an option to acquire this remaining 49% equity interest in Quicknet within the second year for $5,000,000. As a general rule, the Company could pay these amounts by 50% in shares of the common stock of the Company and 50% in cash. The final percentage of shares versus cash could be negotiated between both parties. The Company exercised its right to purchase the remaining 49% interest in August 2005 (the "Option Exercise"), by having Chinaco purchase a 24.5% interest from each of the two unaffiliated shareholders of Quicknet, Mr. Bo Yu and Mr. Fang Hu.

As previously mentioned, pursuant to the Chinaco Purchase Agreement, the Company was granted the right to acquire 100% of the equity of Chinaco, if and when Chinese law permits. The Company directly owns 49% of Quicknet and through Chinaco, indirectly controls a combined total of 51% equity interest, and thus controls a total 100% of Quicknet.

Until such time, if ever, that Chinese law permits the transfer of a controlling interest in Quicknet, the Company will maintain control of Quicknet under its Quicknet Purchase Agreement, Chinaco Purchase Agreement, and August 2005 Option Exercise. However, the Company will be unable to directly own the remaining 51% interest held by Chinaco.

On September 30, 2005, the Company acquired the remaining 49% of ownership of Quicknet through exercising its option under the original acquisition agreement. The Company has to pay US$2,000,000 (paid) by September 30, 2005 and another US$2,000,000 by December 31, 2005, which is included as part of the accounts payable as of September 30, 2005.

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

Cash and short term investments	$	1,356,834
Accounts receivables		1,626
Goodwill		3,973,646
Accounts payables and accrued liabilities		(134,452)
Unearned revenue		(1,197,654)
Cash paid and payable	$	4,000,000

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CHINA MOBILITY SOLUTIONS, INC.
(Previously known as Xin Net Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

5. Convertible debentures

On August 15, 2005, the Company completed an offering of 134 units ("Units") for $3,350,000. Each Unit was sold for $25,000, consisting of $25,000 principal amount of senior convertible debentures (the "Debentures"), and one Series “C” Warrant and one Series “D” Warrants. The Debentures are initially convertible at $0.35 per share for 71,429 shares of common stock of the Company; maturing on August 15, 2006 and accruing interest at a rate of not less than 6% per annum equal to the sum of 2% per annum plus the one-month London Inter-Bank Offer Rate (LIBOR). The Debentures are subject to redemption at 125% of the principal amount plus accrued interest commencing six months after the effective date (the "Effective Date") of the registration statement. The registration statement has not been approved by the regulatory authority.

Each Unit also includes: (i) Series “C” Warrants exercisable at $0.44 per share to purchase 71,429 shares of Common Stock of the Company for two years from the Effective Date, but no later than February 15, 2008; and (ii) Series “D” Warrants exercisable at $0.52 per share to purchase 71,429 shares of Common Stock for three years from the Effective Date, but no later than February 15, 2009. The Series “C” and Series “D” Warrants are subject to redemption by the Company at $0.001 per Warrant at any time commencing six months and twelve months, respectively, from the Effective Date, provided the average closing bid price of the common stock of the Company equals or exceeds 175% of the respective exercise prices for 20 consecutive trading days.

The Company incurred $335,000 as the 10% sales commission of the aggregate purchase price, $100,500 as the 3% non-accountable expenses of the agent, $16,750 for the agent's out-of-pocket expenses and $120,609 for legal fees. All of them have been recorded as expenses for the current quarter.

As of September 30, 2005, interest payable of $24,416 has been recorded as part of the accounts payable.

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, 2005 and 2004:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004

Income (Loss) from continuing operations	$	$ (8,777,699$)	$	52,359	$	$ (8,828,971$)	$	(110,192)
Income (Loss) from discontinued operations		-		-		-		(41,654)
Net income (loss) for the period		(8,777,699)		52,359		(8,828,971)		(151,846)
Weighted-average number of shares outstanding		17,929,279		15,826,670		16,996,285		14,531,196
Effective of dilutive securities :								
Dilutive options - $0.30		-		-		-		-
Dilutive warrants Series "B" - $2.25		-		-		-		-
Dilutive warrants Series "C" - $0.44		-		-		-		-
Dilutive warrants Series "D" - $0.52		-		-		-		-
Dilutive potential common shares		-		-		-		-
Adjusted weighted-average shares and assumed conversions		17,929,279		15,826,670		16,996,285		14,531,196
Basic income (loss) per share attributable to common shareholders :								
Income (loss) from continuing operations	$	(0.49)	$	0.00	$	(0.52)	$	(0.01)
Income (loss) from discontinued operations		0.00		0.00		0.00		-0.00
Total basic income (loss) per share	$	(0.49)	$	0.00	$	(0.52)	$	(0.01)
Diluted income (loss) per share attributable to common shareholders :								
Income (loss) from continuing operations	$	(0.49)	$	0.00	$	(0.52)	$	(0.01)
Income (loss) from discontinued operations		0.00		0.00		0.00		-0.00
Total diluted income (loss) per share	$	(0.49)	$	0.00	$	(0.52)	$	(0.01)

The effect of outstanding options and warrants was not included as the effect would be antidilutive.
On June 24, 2004, the Company carried out a 3-for-1 reverse stock-split. Figures of prior periods have been retroactively restated to reflect the effect of the reverse stock-split.

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CHINA MOBILITY SOLUTIONS, INC.
(Previously known as Xin Net Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

7. Share Capital

During the quarter ended June 30, 2005, the Company issued 600,000 shares of its common stock at a fair value of $351,300 to a company for one year investor relations services until March 2006. As of September 30, 2005, $175,650 was recorded as prepaid expenses and $175,650 was recorded as investor relations expense.

During the quarter ended September 30, 2005, the Company has increased its authorized share capital from 50,000,000 to 500,000,000 shares of common stock with a par value of $0.001 per share.

Conversion Feature of the convertible debenture

According to EITF 98-5, the intrinsic value of the conversion feature of the convertible debenture is $1,052,863. The whole amount has been recorded as interest expenses in the statement of operations as the debentures are convertible at any time during the specified periods and an increase in additional paid-in-capital on balance sheet.

8. Share Purchase Warrants

5,884,990 Series “A” Warrants were expired during the nine-month period ended September 30, 2005.

During the quarter ended September 30, 2005, the Company issued 134 Series “C” Warrants. Each Series “C” Warrant entitles the holder to purchase 71,429 shares of common stock of the Company at $0.44 per share for two years from the Effective Date, but no later than February 15, 2008. The Company also issued 134 Series “D” Warrants. Each Series “D” Warrant entitles the holder to purchase 71,429 shares of common stock of the Company at $0.52 per share for three years from the Effective Date, but no later than February 15, 2009. The Series “C” and “D” Warrants are subject to redemption by the Company at $0.001 per Warrant at any time commencing six months and twelve months, respectively, from the Effective Date, provided the average closing bid price of the common stock of the Company equals or exceeds 175% of the respective exercise prices for 20 consecutive trading days.

As of September 30, 2005, 10 Series “B” warrants were outstanding which entitle the holders to purchase a common share of the Company at $2.25 each on or before March 31, 2006. 134 Series “C” warrants were outstanding which entitle the holders to purchase 71,429 common shares of the Company at $0.44 each within two years from the Effective Date but no later than February 15, 2008. 134 Series “D” warrants were outstanding which entitle the holders to purchase 71,429 common shares of the Company at $0.52 each within three years from the Effective Date but no later than February 15, 2009.

The fair value of the Series “C” warrants issued was estimated at $24,286 each by using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield of 0%, expected volatility of 141%, risk-free interest rates of 3.14%, and expected lives of two years.

The fair value of the Series “D” warrants issued was estimated at $27,143 each by using the Black-Scholes Option

Pricing Model with the following assumptions: dividend yield of 0%, expected volatility of 158%, risk-free interest rates of 3.26%, and expected lives of three years.

9. Stock Options

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

On September 1, 2005, the Company granted 3,090,000 stock options to consultants and employees with an exercise price of $0.35 each and $0.40 each for 2,590,000 and 500,000 stock options, respectively, expiring on September 1, 2015. These stock options were all exercised on the date of grant.

The Company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” under which no compensation cost for stock options is recognized for stock options awards granted at or above fair market value. Had compensation expense for the Company’s stock-based compensation plans been determined under FAS No. 123, based on the fair market value at the grant dates, the Company’s pro forma net loss and pro forma net loss per share would have been reflected as follows at September 30:

		2005		2004
Net loss				
As reported	$	(7,776,108)	$	(151,846)
Stock-based employee compensation cost, net of tax		(301,600)		-
Proforma	$	(8,077,708)	$	(151,846)
Loss per share				
As reported	$	(0.46)	$	(0.01)
Proforma	$	(0.48)	$	(0.01)

The fair values of the options grant during the nine-month period ended September 30, 2005, were from $0.13 to $0.14 each and were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumption used for those options granted during the nine-month period ended September 30, 2005: dividend yield of 0%, expected volatility of 132%, risk-free interest rate of 2.78%, and an expected life of 1 year.

Options outstanding at September 30, 2005 were 660,000 with option price of $0.30 each. No options were canceled or forfeited during the nine-month period ended September 30, 2005. The weighted average remaining contractual life is 1.81 years.

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10. Related Party Transactions

During the three-month and nine-month periods ended September 30, 2005, the Company paid $9,182 and $19,571 to a director and an officer as wages and benefits.

As of September 30, 2005, the Company has an amount of $21,531 due from a company with a common director without interest or specific terms of repayment.

As of September 30, 2005, the Company has an amount of $500 due to a director of the Company for expenses advanced on behalf of the Company. The amount is non-interest bearing and is repayable on demand.

11. Segment and Geographic Data

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

A. By geographic areas	**China**	**Canada**	**Other**	**Total**
Three months ended September 30, 2005				
Revenue from continuing operations	$ 1,190,328	$ 53,100	$ -	$ 1,243,428
Operating income (loss)	89,897	465	(8,886,132)	(8,795,770)
Total assets	9,984,876	128,825	2,706,439	12,820,140
Depreciation	-	765	-	765
Interest income	24,202	9	-	24,211
Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	1
Three months ended September 30, 2004				
Revenue from continuing operations	$ 888,082	$ 95,383	$ -	$ 983,465
Operating income (loss)	(35,478)	68,768	(11,230)	22,060
Total assets	9,214,140	145,885	172,468	9,532,493
Depreciation	1,419	794	42	2,255
Interest income	30,282	8	-	30,290

Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	172,251	172,251

A. By geographic areas	China	Canada	Other	Total
Nine months ended September 30, 2005				
Revenue from continuing operations	$ 3,376,829	$ 160,408	$ -	$ 3,537,237
Operating income (loss)	351,823	(28,237)	(9,074,733)	(8,751,147)
Total assets	9,984,876	128,825	2,706,439	12,820,140
Depreciation	-	1,925	8	1,933
Interest income	60,605	20	-	60,625
Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	1
Nine months ended September 30, 2004				
Revenue from continuing operations	$ 888,082	$ 218,298	$ -	$ 1,106,380
Operating loss	(34,781)	(17,354)	(42,734)	(94,869)
Total assets	9,214,140	145,885	172,468	9,532,493
Depreciation	1,419	2,347	124	3,890
Interest income	59,838	8	-	59,846
Income from discontinued operations	-	(41,654)	-	(41,654)
Investment in equity method investee	-	-	172,251	172,251

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B. By operating segments	**Mobile communications**	**ESL education**	**Other**	**Total**
For the three months ended September 30, 2005				
Revenue from external customers	$ 1,190,328	$ 53,100	$ -	$ 1,243,428
Intersegment revenue	-	-	-	-
Interest revenue	5,310	9	18,892	24,211
Interest expense	-	-	24,412	24,412
Depreciation	-	569	196	765
Segment operation profit (loss)	7,221	7,697	(8,810,688)	(8,795,770)
Segment assets	2,772,366	111,022	9,936,752	12,820,140
For the three months ended September 30, 2004				
Revenue from external customers	$ 888,082	$ 95,383	$ -	$ 983,465
Intersegment revenue	-	-	-	-
Interest revenue	6,711	4	23,575	30,290
Interest expense	-	-	-	-
Depreciation	1,419	746	90	2,255
Segment operation profit (loss)	(34,078)	38,032	18,106	22,060
Segment assets	1,887,804	124,528	7,520,161	9,532,493

B. By operating segments	**Mobile communications**	**ESL education**	**Other**	**Total**
For the nine months ended September 30, 2005				
Revenue from external customers	$ 3,376,829	$ 160,408	$ -	$ 3,537,237
Intersegment revenue	-	-	-	-
Interest revenue	14,280	20	46,325	60,625
Interest expense	-	-	24,414	24,414
Depreciation	-	1,646	287	1,933
Segment operation profit (loss)	268,309	21,288	(9,040,744)	(8,751,147))
Segment assets	2,772,366	111,022	9,936,752	12,820,140
For the nine months ended September 30, 2004				
Revenue from external customers	$ 888,082	$ 218,298	$ -	$ 1,106,380

Intersegment revenue	-	-	-	-
Interest revenue	6,711	8	53,127	59,846
Interest expense	-	-	-	-
Depreciation	1,419	2,204	267	3,890
Segment operation profit (loss)	(34,078)	(5,268)	(55,523)	(94,869)
Segment assets	1,887,804	124,528	7,520,161	9,532,493

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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 China Mobility Solutions, Inc.'s consolidated financial statements and related notes. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. When used in this discussion, the words "believes," "anticipate," "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.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable and allowance for doubtful accounts, intangible and long-lived assets, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2005 AS COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2004

Revenues. The Company had revenues of $1,243,428 in the third quarter of 2005 compared to $983,465 in the third quarter of 2004 in the form of net sales of Mobile marketing services (Quicknet) of $1,190,328 and education courses (Windsor) of $53,100. The Company incurred operating expenses of $9,654,050 in the third quarter of 2005 compared to operating expenses of $709,908 in the third quarter of 2004. The Company had an operating loss of $8,795,770 in the third quarter of 2005, and a net loss of $8,777,699 compared to an operating income of $22,060 and a net income of $52,359 in the third quarter in 2004. The huge difference is mainly caused by the “fair value of warrants issued” totaled at $6,891,470.

Business Segments

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

Mobile marketing services	$	1,190,328

Windsor - ESL Education	$	53,100
The cost of revenue in each segment was:		
Mobile marketing services	$	368,552
Windsor	$	16,596
The gross profit from each of the business segments was:		
Mobile	$	821,776
Windsor	$	36,504
	$	858,280

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Note: Quicknet is the operating subsidiary in China which provides mobile solutions such as mobile marketing services by cell phone advertisement to enterprises in China. On September 30, 2005, the Company acquired the remaining 49% of ownership of Quicknet through exercising its option under the original acquisition agreement.

Net Income/Loss per share: The per share loss for the third quarter of 2005 was $0.49, and the per share earnings for the third quarter of 2004 was $0.00

RESULTS OF OPERATIONS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 COMPARED TO THE SAME PERIOD ENDED SEPTEMBER 30, 2004

The Company had revenues of US$3,537,237 in the period ended September 30, 2005, compared to US$1,106,380 in the same period in 2004. The Company had a cost of revenue of $946,636 in the period in 2005 compared to $279,870 in the same period in 2004. The revenue has been deferred into the 12-month period which is the service period according to the US GAAP. The Company incurred expenses of $11,341,748 in the nine-month period in 2005 and $921,379 in expenses in the period in 2004. The expenses in the nine-month period in 2005 includes US$1,052,863 of intrinsic value of the conversion feature of the convertible debenture (see Note 7 of the financial statements for details), a 10% sales commission equal to $359,500, a 3% non-accountable expense allowance of $100,500 which is related to a convertible debenture completed on Aug.15, 2005, a US$126,000 stock-based compensation and a U$6,891,470 “fair value of warrants issued”. Net cash provided by operating activities is US$1,791,120 in the nine-month period in 2005 compared to US$306,567 in the same period in 2004. The operating (losses) in the periods in 2005 and 2004 were ($8,751,147) and ($94,869) respectively, after interest income of $60,625 and $59,846 in 2005 and 2004, respectively, and adjustment for minority interests (in QuickNet in 2005), the Company had a loss from continuing operations in the period in 2005 of ($8,828,971) and in 2004 of (110,192). The net loss per share was $0.43 in the period in 2005 compared to ($0.01) in the period in 2004.

The Company expects the trend of losses to continue at about the same rate in the succeeding periods.

Business Segment Revenue

During the nine month period in 2005, the Company had revenues in two segments:

Mobile marketing services	$	3,376,829
Windsor - ESL Education	$	160,408
The gross profit from each of the business segments was:		
Mobile marketing services	$	2,473,807
Windsor - ESL Education	$	116,794

Changes in Financial Condition:

At the end of the third quarter of 2005, Company had assets of $12,820,140 compared to $6,447,030 at year-end 2004. The current assets totaled $8,010,631 at the end of the third quarter of 2005 compared to $5,466,574 at 2004 year-end. Total current liabilities at the end of the third quarter of 2005 were $8,163,831 compared to $2,452,522 at 2004 year-end. At September 30, 2005 the Company had $ 7,634,523 in cash compared to $5,380,622 at year-end 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash capital of $7,634,523 at the quarter ended September 30, 2005. The Company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. Other than cash capital, its other assets would be illiquid.

At the quarter ended September 30, 2005 it had $8,010,631 in current assets and current liabilities of $8,163,831.

The cash capital at the end of the period of $7,634,523 will be used to fund continuing operations.

Net cash flows provided by operating activities increased to $1,791,120 for the quarter ended September 30, 2005.
On September 30, 2005, the Company acquired the remaining 49% of Quicknet that it did not own, and paid US$2,000,000 on September 30, 2005. Another US$2,000,000 will be paid before December 31, 2005, which is included as part of the accounts payable as of September 30, 2005. The Company raised US$1,115,000 through issuing common stock and US$3,350,000 through issuing convertible debentures during the quarter ended September 30, 2005.

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Need for Additional Financing:

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

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

If future revenue declines, or operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through 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, or financial resources or plans to enter any other business as of this date.

From the aspect of whether it can continue toward the business goal of maintaining and expanding the businesses in Canada and grow the new business of mobile marketing 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.

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 two years now, the competition is very fierce in the market. The Canadian government has tightened its budget on English training for new immigrants, which lead to a termination of government funding for Windsor, and this change had negative effects to the revenue of Windsor Education Academy.

The Company has experienced growth in revenues in its Quicknet services, and it anticipates future growth in revenues although China must always be viewed as a highly competitive market where profitability may be difficult to achieve or sustain.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any material risk with respect to changes in foreign commodities prices or interest rates. We do not believe that we have any other relevant market risk with respect to the categories intended to be discussed in this item of this report.

Concentrations and Risks

During 2005, about 78 % of the Company's assets were located in China and 22% of the Company's assets were located in Canada. In addition, 96% of the Company’s revenues were derived from customers in China and 4% of the Company’s revenues were derived from customers in Canada.

In 2005 and 2004, the Company did not derive revenue from any one customer for more than 10% of its total revenue.

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ITEM 4. CONTROLS AND PROCEDURES

Quarterly Evaluation of Controls

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of the design and operation of (i) our disclosure controls and procedures ("Disclosure Controls"), and (ii) our internal control over financial reporting ("Internal Controls"). This evaluation ("Evaluation") was performed by our Chief Executive Officer and Principal Accounting Officer, Angela Du, ("CEO") and Ernest Cheung, our Principal Financial Officer ("CFO"). In this section, we present the conclusions of our CEO and CFO based on and as of the date of the Evaluation, (i) with respect to the effectiveness of our Disclosure Controls, and (ii) with respect to any change in our Internal Controls that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our Internal Controls.

CEO and CFO Certifications

Attached to this quarterly report, as Exhibits 31.1 and 31.2, are certain certifications of the CEO and CFO, which are required in accordance with the Exchange Act and the Commission's rules implementing such section (the "Rule 13a-14(a)/15d-14(a) Certifications"). This section of the quarterly report contains the information concerning the Evaluation referred to in the Rule 13a-14(a)/15d-14(a) Certifications. This information should be read in conjunction with the Rule 13a-14(a)/15d-14(a) Certifications for a more complete understanding of the topic presented.

Disclosure Controls and Internal Controls

Disclosure Controls are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed with the Commission under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the applicable report is being prepared. Internal Controls, on the other hand, are procedures which are designed with the objective of providing reasonable assurance that (i) our transactions are properly authorized, (ii) the Company's assets are safeguarded against unauthorized or improper use, and (iii) our transactions are properly recorded and reported, all to permit the preparation of complete and accurate financial statements in conformity with accounting principals generally accepted in the United States.

Limitations on the Effectiveness of Controls

Our management does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well developed and operated, can provide only reasonable, but not absolute assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances so of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision -making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of a system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Evaluation

The CEO and CFO's evaluation of our Disclosure Controls and Internal Controls included a review of the controls' (i) objectives, (ii) design, (iii) implementation, and (iv) the effect of the controls on the information generated for use in this quarterly report. In the course of the Evaluation, the CEO and CFO sought to identify data errors, control problems, acts of fraud, and they sought to confirm that appropriate corrective action, including process improvements, was being undertaken. This type of evaluation is done on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our quarterly reports on Form 10-QSB and annual reports on Form 10-KSB. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls, and to make modifications if and as necessary. Our external auditors also review Internal Controls in connection with their audit and review activities. Our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including improvements and corrections) as conditions warrant.

Among other matters, we sought in our Evaluation to determine whether there were any significant deficiencies or material weaknesses in our Internal Controls, other than as identified and discussed below for the quarter ended March 31, 2005, which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information, or whether we had identified any acts of fraud, whether or not material, involving management or other employees who have a significant role in our Internal Controls. This information was important for both the Evaluation, generally, and because the Rule 13a-14(a)/15d-14(a) Certifications, Item 5, require that the CEO and CFO disclose that information to our Board (audit committee), and to our independent auditors, and to report on related matters in this section of the quarterly report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions". These are control issues that could have significant adverse affect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce, to a relatively low level, the risk that misstatement cause by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employee in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the Evaluation, and in each case, if a problem was identified; we considered what revisions, improvements and/or corrections to make in accordance with our ongoing procedures.

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Conclusions

Based upon the Evaluation, our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives. Our CEO and CFO have concluded that our disclosure controls and procedures are effective at that reasonable assurance level to ensure that material information relating to the Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our Internal Controls are effective at that assurance level to provide reasonable assurance that our financial statements are fairly presented inconformity with accounting principals generally accepted in the United States. The foregoing statement, however, is subject to our earlier determination that that there were material weaknesses in our disclosure controls in our operations in China, that needed to be addressed by management, as follows.

We are in the process of implementing changes to our internal controls over financial reporting identified in connection with the Company’s evaluation of such controls as of the end of the period ended March 31, 2005. The changes which we are in the process of implementing could materially affect or are reasonably likely to materially affect those controls. These changes included corrective action taken with regard to the material weakness identified in the Company's Form 10-QSB for the period ended March 31, 2005.

The Company has implemented document control procedures for its subsidiary QuickNet in its manual. These include:

A. Expenditure controls/approvals and documentation by Board Committee for the subsidiary in China, Beijing QuickNet; and

B. Subscription accounting and tracking for its subsidiary in China, Beijing QuickNet.

The Company is still working on implementing such changes to our internal controls and procedures based on the model framework created by the Committee of Sponsoring Organizations of the Treadway Commission (or "COSO") and plans to finish such revisions by December 31, 2005.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 7, 2005, we were sued by Sino-I Technology Limited for $88,270 for breach of warranty and a claim under a guaranty. Our counsel is vigorously defending this action.

No director, officer or affiliate of ours, and no owner of record or beneficial owner of more than 5.0% of our securities, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

Item 2. Changes in Securities

We raised $3,350,000 in a private placement of our securities, on a "best efforts, all or none" basis (the "Offering") of 134 units (the "Units"). The Offering was for $2 million with an over-subscription of up to $1,350,000. Each Unit was sold for $25,000, consisting of $25,000 principal amount of senior convertible debentures (the "Debentures"), and Class A Warrants and Class B Warrants, to purchase shares of common stock, $0.001 par value (the "Common Stock"). The Debentures are initially convertible at $0.35 per share for 71,429 shares of Common Stock; mature on August 15, 2006 and accrue interest at a rate of not less than 6% per annum equal to the sum of 2% per annum plus the one-month London Inter-Bank Offer Rate (LIBOR). The Debentures are subject to redemption at 125% of the principal amount plus accrued interest commencing six months after the effective date (the "Effective Date") of the registration statement concerning the securities sold in the Offering.

In addition, if for the 12 months ending August 15, 2006, the Company issues or sells any shares of Common Stock or any equity or equity equivalent securities (collectively, "Common Stock Equivalents") for a per share consideration less than the Conversion Price on the date of such issuance or sale (a "Dilutive Issuance"), then the Conversion Price shall be adjusted so as to equal the value of the consideration received or receivable by us (on a per share basis) for the additional shares of Common Stock or Common Stock Equivalents so issued. The same provision applies to the warrants ending on their Expiration Date.

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Each Unit also includes: (i) Class A Warrants exercisable at $.44 per share to purchase 71,429 shares of Common Stock for two years from the Effective Date, but no later than February 15, 2008; and (ii) Class B Warrants exercisable at $.52 per share to purchase 71,429 shares of Common Stock for three years from the Effective Date, but no later than February 15, 2009. The Class A and Class B Warrants are subject to redemption by the us at any time commencing six months and twelve months, respectively, from the Effective Date; provided the average closing bid price of the Common Stock equals or exceeds 175% of the respective exercise prices for 20 consecutive trading days.

If any Event of Default occurs and at any time thereafter, the principal amount, all accrued but unpaid interest on, and all other amounts payable under this Debenture may be declared, and upon such declaration shall become, immediately due and payable without presentment, demand, protest, or other notice of any kind, all of which are expressly waived. An Event of Default includes: failure to pay principal or interest when due; dissolution; an act of bankruptcy; foreclosures; certain judgments; failure to perform any agreement contained in the Debenture and related transaction agreements; default on other indebtedness; breach of any representation or warranty made in this transaction.

If payment of the outstanding principal amount of the Debenture, together with accrued unpaid interest thereon at the applicable rate of interest is not made by such Accelerated Maturity Date (any date prior to the Maturity Date), interest shall accrue (including from and after the date of the entry of judgment in favor of the Holder in an action to collect the Debenture) at an annual rate equal to the lesser of twelve percent (12%) or the maximum rate of interest permitted by applicable law.

Upon an Event of Default the Holder may (i) sue in equity or at law, or both, (ii) enforce payment of the Debenture, or (iii) enforce any other legal or equitable right of the holder of the Debenture.

Pursuant to the Registration Rights Agreements entered into between the Company and the investors, the Company agreed to file the registration statement covering the resale of all shares underlying the Debentures and Warrants no later than September 15, 2005. If such registration statement was not filed by September 15, 2005, or declared effective within 90 days following the filing of such registration statement, and/or certain other events occur, the Company shall pay to each investor liquidated damages equal to 2% of the purchase price per month up to an aggregate of 16% of the purchase price.

The Closing occurred on August 15, 2005, and we received total gross proceeds of $3,350,000 and net proceeds of approximately $2,866,000, after deducting fees payable to the placement agent and expenses of the Offering. These fees included a 10% sales commission equal to $359,500, a 3% non-accountable expense allowance of $100,500 (less $25,000 that was already paid as a non-refundable advance), as well as other transaction and legal expenses payable by the Registrant.

The net proceeds received in the Offering will be used to support the growth of our fixed assets and sales support offices, to launch our next four mobile business solutions: Office Automation Solutions, Mobile Banking, Mobile Tax Services, and SMS-based Services for Police, to open approximately 15 small sales support offices throughout China and to identify, analyze and finalize opportunities for the acquisition of other mobile solution companies in China intended to deliver respective synergistic benefits. Other remaining proceeds from this Offering will be used for research and development, and for working capital and general corporate uses. Included in this amount is $250,000 to develop an investor relations/public relations program.

The Units were offered to certain institutional and other accredited investors without registration under the Securities Act, or state securities laws, in reliance on the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws.

In addition to the financing described above, on November 3, 2005, we adopted a 2006 Non-Qualified Employee Stock Compensation Plan and filed a Registration Statement on Form S-8 with the Commission in connection therewith, which registered 2,000,000 shares of common stock for awards and 2,000,000 shares of common stock for issuance upon exercise of underlying stock options. To date, none of the shares of common stock have been awarded and issued by the Compensation Committee.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Shareholders on July 1, 2005, and the following actions were passed by a majority vote of our outstanding shareholders entitled to vote thereat: (a) We elected two directors to hold office until the next annual meeting of shareholders and qualification of their respective successors; (b) the appointment of Moen and Company, as Independent Accountants for the annual period ending December 31, 2004, was ratified; (c) the number of authorized shares of common stock was increased to 500 million shares; and (d) the 2005 Stock Option Plan was adopted.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

(a) Exhibits are incorporated by reference.

Current Reports on Form 8-K:

(a) On August 26, 2005, we filed a Form 8-K with the Commission.
(b) On August 18, 2005, we filed a Form 8-K with the Commission.
(c) On August 18, 2005, we filed a Form 8-K with the Commission.
(d) On July 7, 2005, we filed a Form 8-K with the Commission.

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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 by the undersigned, thereunto duly authorized.

CHINA MOBILITY SOLUTIONS, INC.
(Registrant)

Date: *May 10, 2006*

By: /s/ *Angela Du*

Angela Du
Chief Executive Officer and Principal Accounting Officer

Date: *May 10, 2006*

By: /s/ *Ernest Cheung*

Ernest Cheung
Principal Financial Officer