XIN NET CORP
Form 10QSB
August 20, 2002

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, 2002

Commission file number 0-26559

CIK No. 0001082603

XIN NET CORP.
(Exact name of registrant as specified in this charter)

Florida	330-751560
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

#950 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2
(Address of principal executive offices) (Zip Code)

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

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

YES X NO

As of June 30, 2002, there were 21,360,010 shares of $0.001 par value common stock outstanding.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Stated in U.S. dollars	June 30, 2002	December 2001
	(Unaudited)	

ASSETS		
Current Assets		
Cash and Cash Equivalents	$762,146	$1,360,071
Investments	1,317	64,077
Accrued Interest Receivables	890	701
Loan to ProtectServe Pacific Ltd.	-	360,400
Inventory	6,031	5,985
Prepaid Expenses and Other Current Assets	209,684	183,188
Net Assets of Discontinued Operations	293,469	293,341
Deferred Costs	649,971	571,678
Total Current Assets	1,923,508	2,839,441
Investment - at equity (Note 4)	719,508	-
Property and Equipment, Net (Note 2)	530,679	714,171
Goodwill	-	200,000
Total Assets	$3,173,695	$3,753,612
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Other Accrued Liabilities	$620,953	$683,828
Deferred Revenue	1,801,608	1,861,700
Security Deposit	500,000	500,000
Capital Lease Obligation (Note 3)	-	58,840
	2,922,561	3,104,368
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock : $0.001 Par Value		
Authorized : 50,000,000		
Issued and Outstanding : 21,360,010	21,360	21,360
Additional Paid In Capital	7,214,045	7,214,045
Accumulated Deficit	(6,834,172)	(6,437,572)
Accumulated Other Comprehensive Income	(150,099)	(148,589)
Total Stockholders' Equity	251,134	649,244

Total Liabilities and Stockholders' Equity	$3,173,695	$3,753,612

XIN NET CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Stated in U.S. dollars	Three Months Ended June 30, 2002	2001	Six 20
Revenue			
Domain Name Registration	$782,190	$599,036	$1,505,
E-Solutions	329,096	269,131	614,49
	1,111,286	868,167	2,119,
Cost of Revenue			
Domain Name Registration	395,184	229,494	774,59
E-Solutions	51,060	14,764	67,235
	446,244	244,258	841,82
Gross Profit	665,042	623,909	1,278,
Expenses			
Advertising and promotion	45,054	104,198	76,009
Depreciation and Amortization	94,442	47,685	151,47
General and administrative	166,639	143,478	304,19
Rent	90,017	117,152	186,59
Salaries, wages and benefits	313,421	387,910	660,67
Telephone and communication	76,894	48,868	154,42
	786,467	849,291	1,533,
Operating Loss	(121,425)	(225,382)	(255,3
Other Income and Expenses			

Interest income	697	12,805	1,712
Other income	12,463	-	12,463
Equity loss in undistributed earnings of investee company (Note 4)	(105,144)	-	(80,79
Loss on disposal of capital assets	(74,660)	-	(74,66
	(166,644)	12,805	(141,2
Loss from Continuing Operations	(288,069)	(212,577)	(396,6
Loss from Discontinued Operations	-	(210,713)	-
Net Loss Available to Common Stockholders	$(288,069)	$(423,290)	$(396,6
Loss per share attributable to common stockholders:			
Loss from continuing operations	$(0.01)	($0.01)	$(0.02
Loss from discontinued operations	-	(0.01)	-
Total basic and diluted	$(0.01)	$(0.02)	$(0.02)
Weighted average number of common shares outstanding:			
Basic and diluted	21,360,010	21,360,010	21,360

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Unaudited)

Stated in U.S. dollars	2002	2001
Cash flows from operating activities		
Net loss	$(396,600)	$(1,251,621)
Adjustments to reconcile net loss to net cash		
Provided by (Used in) operating activities		
Depreciation and amortization	151,471	135,028
Loss on disposal of capital assets	74,660	-
Translation adjustments	(1,510)	(270)
Equity income of The Link Group, Inc.	80,792	-
Changes in assets and liabilities		

Increase in accrued interest receivables	(189)	4,441
(Increase) Decrease in prepaid expenses and other current assets	(26,496)	(105,520)
(Increase) Decrease in inventory	(46)	36,156
Decrease in net assets of discontinued operations	-	59,742
Increase in deferred costs	(78,293)	(22,958)
Increase (Decrease) in accounts payable	(62,875)	237,242
Increase (Decrease) in deferred revenue	(60,092)	222,590
Increase in security deposits	-	100,000
Net cash used in operating activities	(319,178)	(585,170)
Cash flows from investing activities		
Purchases of property and equipment	(72,722)	(99,008)
Reduction in investment	62,760	15
Reduction in loan to ProtectServe Pacific Ltd.	360,400	-
Investment in The Link Group, Inc.	(600,300)	-
Net cash flows used in investing activities	(249,862)	(98,993)
Cash flows from financing activities		
Principal payments on capital lease obligations	(28,885)	(31,345)
Net cash flows used in financing activities	(28,885)	(31,345)
Decrease in cash and cash equivalents	(597,925)	(715,508)
Cash and cash equivalents - beginning of period	1,360,071	2,619,288
Cash and cash equivalents - end of period	$762,146	$1,903,780
Supplemental Information : Cash paid for :		
Interest	$7,003	$9,299
Income taxes	7,176	-

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

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumulated Deficit	Acc Comp I
Balance, December 31, 1999	21,360,000	$21,360	$7,214,025	$(1,318,945)	$(107,
Exercise of Warrant for cash at $2.00 per share in September 2000	10	-	20		
Net loss				(3,607,724)	
Translation Adjustments					(45,
Balance, December 31, 2000	21,360,010	21,360	7,214,045	(4,926,669)	(152,
Net loss				(1,510,903)	
Translation Adjustments					3,
Balance, December 31, 2001	21,360,010	21,360	7,214,045	(6,437,572)	(148,
Net loss				(396,600)	
Translation Adjustments					(1,
Balance, June 30, 2002	$21,360,010	$21,360	$7,214,045	$(6,834,172)	$(150,

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles. 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 the 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, 2001 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, 2002	December 31, 20
Office equipment	$ 222,432	$ 229,3
Equipment	705,997	757,6
Computer software	86,380	83,2
Furniture	27,976	27,9
Total	1,042,785	1,098,2
Less : Accumulated depreciation	(512,106)	(384,07
Net book value	$ 530,679	$ 714,1

The depreciation expense charged to continuing operations for the three-month and six-month periods ended June 30, 2002 are $94,442 and $151,471 respectively.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

(Unaudited)

3. Capital Lease Obligation

The Company leases computer equipment, through its wholly owned subsidiary company Infornet Investment Corp., repayable at approximately $5,330 (CND 8,407) per month to June 30, 2002. The liability includes imputed interest at an average rate of 6.12% per annum. The computer equipment has been returned to the leaser upon the completion of the terms of the lease agreement.

4. Investment in 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.

By an agreement dated January 21, 2002, Link agreed to purchase all of the outstanding shares of Protectserve Pacific Ltd. ("PSP") through the issuance of 37,500,000 (post-reverse one for four split) common shares. Link has the right to buy back its shares at $0.001 per share from these individuals if PSP's after tax profit is less than Hong Kong $9 million dollars ("HKD") for the twelve months ending December 31, 2002. The buy back formula is for every HKD $333,333 that PSP falls short of the HKD $9 million after tax profit, Link can buy back one million (post-reverse one for four split) common shares from these individuals.

On February 18, 2002, the shareholders of Link approved the reverse split of the issued and outstanding common shares of Link at the ratio of one for four, thereby making the Company's total Link shares held equal to 15,370,675 shares, representing 28.8% of the total issued and outstanding shares of Link. The Company therefore 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:

Original cost of 15,370,675 shares of The Link Group, Inc.	$ 800,300
Equity in undistributed earnings of investee company	(80,792)
Investment - at equity	$ 719,508

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

(Unaudited)

5. Basic and Diluted Earnings (Loss) Per Share

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

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three-month and six-month periods ended June 30, 2002 and 2001:

	Three months ended 6/30/2002	Three months ended 6/30/2001	Six 6/30/2002
Loss from continuing operations	$ (288,069)	$ (212,577)	$ (396,6
Loss from discontinued operations	-	(210,713)	
Net loss for the period	(288,069)	(423,290)	(396,6
Weighted-average shares outstanding	21,360,010	21,360,000	21,360,
Effect of dilutive securities :			
Dilutive options - $1.30	-	-	
Dilutive warrants - $1.00	-	-	
Dilutive warrants - $1.50	-	-	
Dilutive potential common shares	-	-	
Adjusted weighted-average shares and assumed conversions	21,360,010	21,360,000	21,360,
Loss per share attributable to common shareholders: Loss from continuing operations	(0.01)	(0.01)	(0.
Loss from discontinued operations	-	(0.01)	
Total basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.

XIN NET CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

(Unaudited)

5. Basic and Diluted Loss Per Share - Continued

Due to the loss for the three-month and six-month periods ended June 30, 2002 and 2001, the effect of outstanding options and warrants was not included as the effect would be anti-dilutive.

6. Total Amount Advanced to Joint Venture

As at June 30, 2002, the total amount advanced to the joint venture project is $3,132,973.

7. Segment and Geographic Data

The Company's reportable segments are geographic areas that provide internet-related services and products to the Chinese markets. 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, 2002			
Revenue from continuing operations	$ 1,111,286	$ -	$ -$
Operating Loss	(81,823)	(3,042)	(36,560)
Total Assets	2,347,030	8,885	817,780
For the three months ended June 30, 2001			
Revenue from continuing operations	$ 868,167	$ -	$ - $
Operating Loss	(179,066)	(3,424)	(42,892)
Total Assets	2,448,671	22,797	1,274,694

7. Segment and Geographic Data - Continued

For the six months ended June 30, 2002

Revenue from continuing operations	$ 2,119,876	$ -	$ -	$
Operating Loss	(152,000)	(8,351)	(94,972)	
Total Assets	2,347,030	8,885	817,780	
For the six months ended June 30, 2001				
Revenue from continuing operations	$ 1,543,998	$ -	$ -	$
Operating Loss	(764,315)	(6,541)	(79,454)	
Total Assets	2,448,671	22,797	1,274,694	

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

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of Xin Net Corp. and Subsidiaries (the "Company") financial condition, changes in financial condition and results of operations. The MD&A is organized as follows:

o Caution concerning forward-looking statements. This section discusses how certain forward-looking statements made by the Company throughout the MD&A and in the consolidated financial statements are based on management's present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

o Recent accounting pronouncements - This sections provides an update on the Financial Accounting Standards Board's recent accounting pronouncements.

o Critical accounting policies. This section provides an analysis of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

o Liquidity and capital resources. This section provides an analysis of the Company's financial condition and cash flows as of and for the six months ended June 30, 2002.

o Results of operations. This section provides an analysis of the Company's results of operations for the second quarter of 2002 relative to that of 2001. A brief description is provided of transactions and events that impact the comparability of the results being analyzed.

o Nature of the Company's present operation and future trends. This section provides a general description of the Company's business, as well as recent developments that the Company believes are important in understanding the results of operations, as well as to anticipate future trends in those operations.

- o Future trends. This section provides a discussion on events that are likely to have an impact on short-term or long-term liquidity.

Caution concerning forward-looking statements

The following discussion should be read in conjunction with Xin Net Corp.'s ("we," "us," or the "Company") financial statements and the notes thereto and the other financial information appearing elsewhere in this document. 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," "intends," "will" 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.

Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective for exit or disposal activities initiated after December 31, 2002. The standard addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 essentially requires a liability to be recognized and measured initially at its fair value in the period in which the liability is incurred for a cost associated with an exit or disposal activity. The Company has not had a chance to review what impact this standard may have on its financial statements.

Critical Accounting Policies And Estimates

Our discussion and analysis or plan of operations are 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 bad debts, inventories, intangible assets, deferred costs and revenue, income taxes and contingencies. 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.

We consider the following accounting policies to be affected by managements estimates and/or judgments.

Deferred revenue and deferred costs: The Company's revenue is primarily derived from the sale of nonrefundable subscription services (Internet access usage cards and content services) and domain name registration services, and is recognized over the period the services are provided. Deferred revenue consists primarily of prepaid subscription agreements and domain name registration fees. End users receive certain elements of the Company's revenues over a period of time. As a result, the Company's revenue recognized represents the fair value of these elements over the product's life cycle. Deferred cost consists primarily of amounts paid to various Registrars for domain name registration fees and are deferred on the same basis as revenue. Deferred revenue represents 62% of the Company's total current liabilities at June 30, 2002 and deferred costs represent 34% of the Company's total current assets at June 30, 2002, or 20% of the Company's total assets.

Investment in "The Link Group, Inc." ("Link"): The Company's investment in The Link Group, Inc. will be subject to market volatility. The Company owns 28.8% of the total issued and outstanding shares of Link and accounts for the investment on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. The assets cost at June 30, 2002, was $719,508, representing 23% of the Company's total assets.

Liquidity and capital resources

Liquidity. The Company had net cash, receivables and investments of $764,353 at June 30, 2002. The Company has no other capital resources other than the ability to use its common stock to raise additional capital. It did not raise any additional capital during the first quarter or second quarter of 2002. It has equipment of $530,679 on the books, which is not necessarily liquid at such value. It has an investment in The Link Group, Inc. acquired at a cost of $800,300. Other than cash capital, its other assets would be illiquid.

At the end of the quarter, it had $1,923,508 in current assets. It had current liabilities of $2,922,561, which included deferred revenues of $1,801,608 and a security deposit of $500,000 from the sale of its Internet Access Provision business in June 2001. (The Company continues to experience some delays in obtaining new funding; it plans to close the sale of its Internet Access Provision services when this issue is resolved).

The cash capital at the end of the quarter of $762,146 will be used to fund continued operations, which management believes is adequate to satisfy its cash requirements for the next twelve months. The trend of operating losses could continue due to costs of equipment and telecommunications, design of new value-added services, start up operations for new locations and advertising & marketing which precede development of additional revenue for the Company.

Cash flows. Net cash flows used in operating activities decreased to $319,178 in the first six months in 2002 from $585,170 in the corresponding period in 2001. The single most important item which contributed to this result was the decrease in net loss to $396,600 in the first six months in 2002, as compared to $1,251,621 in the first six months in 2001. Net cash flow used in investing increased to $249,862 in first six months in 2002 as compared $98,993 in first six months 2001 primarily due to an investment of $600,300 in The Link Group, Inc., combined with the repayment of a $360,400 loan to the Company by ProtectServe Pacific Ltd. Purchases of equipment decreased to $72,722 in first six months 2002 from $99,008 in first six months 2001. Net cash flow used in financing activities decreased marginally to $28,885 in first six months 2002, compared to $31,345 in first six months 2001.

Changes in Financial Condition. At the end of the second quarter 2002 Company assets had decreased to $3,173,695 compared to $3,753,612 at year-end 2001. The current assets totaled $1,923,508 at the end of second quarter 2002 compared to $2,839,441 at year-end 2001. Total liabilities at end of second quarter 2002 were $2,922,561 compared to $3,104,368 at year-end 2001. At June 30,2002 the Company had $762,146 in cash compared to $1,360,071 at year-end 2001; $200,000 in net cash was used in the first quarter 2002 as the Company's investment in The Link Group, Inc. Net cash, investments and receivables at June 30, 2002 totaled $764,353.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2002 AS COMPARED TO THE QUARTER ENDED JUNE 30, 2001.

Revenues. Revenues (excluding those generated by Internet Access Provision services which the Company ceased providing since June 2001) in second quarter 2002 rose 28% to $1,111,286 in the form of net sales from its joint venture with Xin Hai Technology Ltd, as compared to net sales of $868,167 in second quarter 2001. The increase is a result of the Company's continued efforts in expanding its customer base due to sales and marketing strategies in the areas of domain name registration and e-solutions services.

Cost of revenues and gross margin. The Company had cost of revenues of $446,244 in second quarter 2002, as compared to $244,258 in second quarter 2001. Gross profit in second quarter 2002 was $665,042 compared to $623,909 in second quarter 2001.

Operating expenses. The Company incurred operating expenses of $786,467 in second quarter 2002 compared to operating expenses of $849,291 in second quarter 2001, a decrease of 7%. This result, achieved against the backdrop of an increase in revenues of 28%, was made possible by the cost-cutting measures which the Company implemented throughout 2001 and continued in the first six months 2002. Expenses which increased were: amortization, to $94,442 in the second quarter of 2002 from $47,685 in the corresponding quarter in 2001; telephone and communications, to $76,894 in second quarter 2002 from $48,868 in the corresponding 2001 period; and general & administrative, to $166,639 in second quarter 2002 from $143,478 in the second quarter 2001. All other expense categories saw a decrease: advertising and promotion to $45,054 from $104,198; rent to $90,017 from $117,152; and salaries, wages and benefits to $313,421 from $387,910.

Net loss and loss per share. Operating loss for second quarter 2002 decreased by 46% to $121,425 compared to the second quarter 2001 operating loss of $225,382. The company had "other loss" of $166,644 in second quarter 2002 compared to "other gain" of $12,805 in second quarter 2001. The net loss in second quarter 2002 was $288,069 ($0.01/share) compared to the net loss in second quarter 2001 of $423,290 ($0.02/share).

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SAME PERIOD IN 2001.

Revenues. Revenues (excluding those generated by Internet Access Provision services which the Company ceased providing since June 2001) in the six months 2002 rose to $2,119,876 in the form of net sales from its joint venture with

Xin Hai Technology Ltd, as compared to net sales of $1,543,998 in the same period in 2001. The increase is a result of the Company's continued efforts in expanding its customer base due to sales and marketing strategies in the areas of domain name registration and e-solutions services.

Cost of revenues and gross margin. The Company had cost of revenues of $841,829 in the period in 2002, as compared to $527,624 in the period in 2001. Gross profit in the period in 2002 was $1,278,047 compared to $1,016,374 in the period in 2001.

Future Trends

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 sale its investments, seek loans or equity placements to cover longer term cash needs to continue operations and expansion. The Company signed a funding agreement with the iBanc Group, Inc. in November 2001. During the course of the second quarter, the Company persevered in its efforts to obtain this funding, but no concrete results have followed thus far. If and when the agreement with iBanc comes to fruition, a sum of $5-6 million will be made available to the Company. There is no assurance, however, that such funds will become available. 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.

Operating expenses. The Company incurred operating expenses of $1,533,370 in the period in 2002 compared to operating expenses of $1,886,684 in the period in 2001, a decrease of 18%. This result, achieved against the backdrop of an increase in revenues of$575,878, was made possible by the cost-cutting measures which the Company implemented throughout 2001 and continued in the first six months 2002. Expenses which increased were: amortization, to $151,471 in the period in 2002 from $51,972 in the corresponding period in 2001; general & administrative, to $304,198 in the period in 2002 from $304,083 in the period in 2001. All other expense categories saw a decrease: advertising and promotion to $76,009 from $238,948; rent to $186,591 from $234,781; salaries, wages and benefits to $660,672 from $812,363; telephone and communications to $154,429 from $182,357.

Net loss and loss per share. Operating loss for the period in 2002 decreased by ($255,323) compared to the same period in 2001 operating loss of ($850,310). The company had "other loss" of ($141,277) in the period in 2002 compared to "other gain" of $41,517 in the period in 2001. The net loss in the period in 2002 was ($396,600) ($0.02/share) compared to the net loss in the same period in 2001 of ($125,621) ($0.04/share).

From the aspect of whether it can continue toward the business goal of maintaining and expanding the joint venture for internet 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.

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, through its joint venture business, to advertise and promote its services and develop additional value-added services. Operating losses may continue.

The Company will continue to seek additional funding. 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.

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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings - None.

Item 2. Changes in securities - None.

Item 3. Defaults upon senior securities - None.

Item 4. Submission of matters to a vote of security holders - None.

Item 5. Other information - None.

Item 6. Exhibits and reports on Form 8-K

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

None.

(b) Reports on Form 8-K filed during the three months ended June 30, 2002. (incorporated by reference)

None.

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, 2002

XIN NET CORP.

by: /s/ Maurice Tsakok

Maurice Tsakok, Director