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XIN NET CORP
Form 10KSB
April 11, 2002

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

FOR THE YEAR ENDED DECEMBER 31, 2001

General Form for Registration of Securities of Small Business Issuers
Commission file number 0-26559

CIK No. 0001082603

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

Florida	330-751560
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(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

Securities Registered to be Pursuant to Section 12(b) of the Act:

NONE

Securities Registered to be Pursuant to Section 12(g) of the Act

COMMON STOCK \$.001 PAR VALUE

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
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Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. X

State issuer's revenues for its most recent fiscal year: \$3,567,571

Transitional Small Business Disclosure Format:

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Yes No X
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Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2001: \$4,935,978.

Number of outstanding shares of the registrant's no par value common stock, as of December 31, 2001: 21,360,010.

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PART I

ITEM 1. BUSINESS

(a) General Description and Development of Business.

PREVIOUS HISTORY

On September 6, 1996, Xin Net Corp. was incorporated under the laws of the State of Florida under the name of Placer Technologies, Inc. It conducted a small public offering of 200,000 shares @ \$.25 per share to achieve \$50,000 in capital. In December 1996 a Rule 15c2-11 filing resulted in trading approval on the OTCBB.

The Company's initial primary service consisted of developing web home pages for small businesses in USA. It generated minimal revenues in 1996.

On April 2, 1997, the Company acquired 100% interest of InforNet Investment Limited ("InforNet"), a Hong Kong corporation. In August 1997 InforNet entered into a joint venture agreement with Xin Hai Technology Development Ltd., ("Xin Hai"), Xin Hai is an experienced internet-related services provider which owns and operates internet business licenses in the cities of Beijing, Chengdu, Guangzhou, Nanjing, Shanghai and Shenyang, China.

On June 11, 1997, the Company purchased 100% interest of InforNet Investment Corp., a British Columbia corporation. InforNet Investment Corp. is the subsidiary which manages daily operations of the Company.

On July 24, 1998, the Company changed its name from Placer Technologies, Inc. to Xin Net Corp. in order to reflect the core business more accurately.

CORPORATE OVERVIEW

Xin Net Corp.'s structure showing its subsidiaries is as follows, with the jurisdiction of incorporation of each subsidiary included in parentheses:

	Xin Net Corp. (Florida, USA)	
InforNet Investment Corp. (100% Owned) (BC., Canada)		InforNet Investment Ltd. (100% Owned) (Hong Kong)
		Xin Net Telecom Corp. Ltd. (Formerly Placer Technologies Corp.) (Joint venture, Beijing, China with Xin Hai)

The Company also incorporated Xinbiz Corp. (British Virgin Islands) on January 14, 2000 and its subsidiary Xinbiz Ltd. (Hong Kong) on March 10, 2000. Both of these companies are wholly owned subsidiaries. Xinbiz Corp. and Xinbiz

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Ltd. do not have any operations.

The Company's primary focus is to be an internet service company in the PRC (People's Republic of China), through its joint venture with Xin Hai. The joint venture company is called Xin Net Telecom Corp. Ltd (formerly called Placer Technologies Corp.) and is often referred to as the "joint venture", "Placer" or "Placer joint venture" in this report. Hence Xin Net Telecom Corp., Placer Technologies Corp., Placer and Placer joint venture all refer to one and the same joint venture.

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Xin Net Corp. currently maintains an office at: #950 - 789 West Pender Street, Vancouver, B.C. Canada V6C 1H2 (telephone number is 1-604-632-9638). It also has an office, as part of the joint venture, in Beijing at Room 1858, New Century Office Tower, No. 6, Southern Road Capital Gym, Beijing 100044, China. Other Xin Hai/joint venture offices are in Guangzhou, Shanghai, Chengdu, Nanjing and Shenyang.

The Company decided in May 2001 to focus its business in China on domain name registration and web-hosting services, and to discontinue Internet access provision services as soon as practicable. On June 22, 2001 the Company entered into an agreement to sell its ISP assets to another company.

The core business is to act as a co-venturer to supply internet-related services in the PRC by covering the major cities through the joint venture with operating partner Xin Hai. Businesses include domain name registration, web design and web hosting, e-commerce solutions, internet advertising, and other value-added services.

Through Xin Net Corp.'s wholly owned subsidiary, InforNet Investment Ltd. (Hong Kong), the Company formed a joint venture with Xin Hai Technology Development Ltd. for upgrading telecommunication technology and services in the PRC. This has evolved into an internet-focused service provider and e-commerce solutions business. The Company's sole business is through the joint venture with Xin Hai and Xin Hai has no other business except the joint venture.

Xin Hai started its internet service in Beijing in 1997. It is currently a supplier of internet-related services in the PRC in the major cities of Beijing, Chengdu, Guangzhou, Shanghai, Nanjing and Shenyang. Xin Hai management may in the future open offices in some other cities in the PRC.

The Placer joint venture with Xin Hai implements and develops software and computer network systems and provides capital for the Internet business owned and operated by Xin Hai. Through the subsidiary InforNet, the agreement with Xin Hai provides the Company with 100% profit participation in the Placer joint venture until the Company recoups its investment, at which time the profit share reverts to 20% to Xin Hai and 80% to the Company (through InforNet). In other words, a) before Xin Net Corp. has recouped its capital investment, 100% of the profits go to the Company, none to Xin Hai; and b) after Xin Net Corp. has recouped its invested capital, the Company will receive 80% of profits and 20% will go to Xin Hai. A different allocation of profits was originally agreed upon, but InforNet and Xin Hai subsequently amended the profit allocation. No profits were allocated either to InforNet or Xin Hai prior to the amendment.

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Revenues: Xin Hai contributes all revenues from its business to the Placer joint venture. Placer exclusively owns the revenues collected from all the services and activities of Xin Hai in its internet-related operations in the PRC. Xin Hai receives no revenues from business other than through the Placer joint venture with InforNet.

Customers: To this date, ChinaDNS has registered more than 600,000 domain names. Its web hosting business counts approximately 65,000 customers.

Xin Net Telecom Corp. Ltd., the Company's joint venture with Xin Hai, has obtained the approval of MOFTEC, China's Ministry of Foreign Trade and Economic Cooperation, and has a business license in the PRC.

We have entered into an Assets Transfer Agreement under which we have agreed to transfer all the assets of the ISP operations in China to Beijing Sino Soft Intel Information Technology, Ltd. of Beijing. The transfer includes all transferable permits, equipment, agency contracts, customers, accounts, employees and operations.

The price for the transfer of assets by us is \$700,000 (USD) payable to us in Renminbi at the official exchange rate, as thus: \$350,000 payable as a deposit upon signing with \$350,000 to be paid upon receipt of shareholder approval of the asset transfer by our shareholders.

We have agreed to assign Logo, lines, numbers, locations and all accounts and assets and have agreed not to compete in China in the ISP business. No fixed debt is assumed by purchaser, but ongoing contracts for Internet access provision, etc. will be assumed by buyer.

JOINT VENTURE AGREEMENT

The Company operations in Xin Net Telecom Corp. Ltd. are defined in the "Operating Agreement of the Cooperative Joint Venture Contract". Xin Hai is contracted by the joint venture to conduct the day-to-day operations.

Under the joint venture agreements, Xin Hai is responsible for:

- coordinating with all existing customers and actively promoting sales and applications of the joint venture company's products, as well as supporting sales of goods and services of the joint venture company to customers;
- obtaining all required permits and authorizations (whether local, municipal, provincial, state or other) and registrations which may be required or

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- applicable to the constitution of the joint venture company including the preparation and submission of the necessary documents for the examination and approval authorities;
- securing and obtaining all necessary licenses, permits and authorizations from the administration which may be applicable or necessary to the business of the company;
- assisting the joint venture company in handling the applications for processing import customs declarations for the machinery and mechanical and electronic equipment to be used and arranging transportation and delivery within the Chinese territory;
- assisting the joint venture company in contracting for and obtaining all necessary infrastructure and utility facilities, such as water, electricity,

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- transportation, etc;
- according to applicable laws and regulations in the PRC assisting the joint venture company in applying for and obtaining a reduction or exemption of taxes, including local taxes, business tax, import or custom duties, sales taxes or other duties on material, equipment or other goods imported into the PRC for the purposes of the joint venture company, and in obtaining other preferential tax treatments for the joint venture company and the parties for the maximum available period;
- obtaining all necessary permits or authorization from the appropriate foreign exchange control bureaus confirming that Company subsidiary Infornet can have access to all required U.S. dollars or other foreign currency acceptable to it and that Infornet, can send profits from the joint venture and return of investment to the Company overseas;
- Xin Hai warrants that it will not cooperate with any party other than Company subsidiary, Infornet, with regard to the Company business;
- performing any other responsibilities as may be agreed upon by and between Parties.

The Company is responsible for:

- making the capital contribution to the joint venture company as contemplated in the joint venture agreements for capital and operations funds in accordance with the laws and regulations in the PRC;
- assisting Xin Hai in purchasing and/or leasing equipment, material, office supplies, transportation, communication lines from local or overseas suppliers;
- within the PRC territory, the Company warrants that it will not cooperate with any other party than XIN HAI for the business specified in this agreement.

Xin Net Telecom Corp. Ltd., the joint venture, owns all revenues collected by Xin Hai from customers. All revenues are deposited by Xin Hai into a bank account in the name of Xin Hai which shall require joint signatures and joint seals of both a Xin Hai authorized officer and a joint venture company authorized officer for any withdrawal of money from it. Forty percent (40%) of the revenue shall be transferred to another bank account (second account) of Xin Hai while the other sixty percent (60%) of the revenue shall be transferred to a bank account of the joint venture company. The forty percent (40%) revenue transferred to a second account of Xin Hai shall be used to cover the operating expenditures. If the amount is less than actual operating expenditures, Xin Hai shall obtain the "balance" from the joint venture company (on a month by month basis). If the amount is higher than the actual operating expenditures then Xin Hai must remit the "surplus" to the joint venture company. The use of the sixty percent (60%) internet revenue transferred to the joint venture company (plus the aforementioned "surplus" or minus the aforementioned "balance") shall be treated as business revenue of the joint venture company and shall be used to pay returns on Company investment capital, fees for technical and management services performed by the joint venture, or remitted as profits to the joint venture participants.

The Placer joint venture is liable for the operating expenditures of the internet network. These operating expenditures include: space and office rental, salaries, and overhead of network operators, leased lines, miscellaneous office furniture and equipment, internet system hardware and software, advertising, travel and promotion, reasonable entertainment, marketing costs, insurance and management cost.

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The Company's subsidiary, Infornet Investment Ltd. is obligated to contribute all of the registered capital of the Placer joint venture. Xin Net Corp. provides the funds to Infornet. Under the joint venture the registered capital is 525,000 USD and total amount of investment (registered capital plus external financing) is 2,000,000 USD. Both of these amounts have been increased in order to better reflect foreseen requirements. Through Infornet, the Company has contributed an additional capital amount of 1,225,000 USD, resulting in a total contribution of 1,750,000 USD. No further capital contribution is required from the Company, however the Company has advanced and will continue to advance loans to the joint venture as necessary to continue the business, but subject to the limits of its capital. Loans made to the Placer joint venture by the Company amounted to US\$3,138,231 at December 31, 2001. These loans are further described in Item 12-Certain Relationships and Related Transactions. Xin Hai has not contributed to the registered capital or loans to the Placer joint venture.

OBLIGATIONS OF THE JOINT VENTURE COMPANY

Under the joint venture contract, the joint venture provides Xin Hai with all the software and equipment as well as the accessories necessary for selling services to end users.

The joint venture also shall provide all the engineering services in respect of the internet network which include but shall not be limited to: the engineering design; the integration, the installation and the testing of the internet network; the customization of the internet network protocol and of the network management software; the development of end user interface software and user application software; the technical support to the internet network and advisory service on maintenance; the supply of equipment and instruments to the internet network.

The joint venture partner Xin Hai holds the "business," including ISP operating licenses, industrial property rights, and network. The ownership and title to all of the assets comprising the internet network shall remain with the joint venture during the term of the joint venture. Xin Hai shall, subject to the agreements, be entitled to the custody and control of such assets on behalf of the Company's joint venture. Subject to the prior written approval of the joint venture, title to any such assets may be vested in Xin Hai and, in all such cases, such assets shall be held by Xin Hai in trust for the joint venture. Xin Hai is not liable for further capital contribution in the Placer joint venture.

The day-to-day network operations are conducted by Xin Hai. General management is assumed by Mr. Xin Wei, an officer and employee of Infornet Investment Corp. (Xin Net Corp. wholly owned Canadian subsidiary). He is also the president of Xin Hai. Strategic issues and decisions are tackled by a team comprised of the Company's Board of Directors and Mr. Xin Wei. Xin Hai has agreed as an addendum to the joint venture agreement that until all investment in the Placer joint venture has been recouped by the Company, and thereafter for a period of 15 years, the Company will designate the managers/directors of the joint venture and control the decisions of the joint venture.

The joint venture may be terminated prior to the expiration of its 20-year term in one of the following ways:

- breach of agreement which goes uncured - by mutual agreement between the partners;
- in case the joint venture is bought by a third party;
- or, in case of bankruptcy, or receivership or liquidation of a party;
- excessive losses due to force majeure.

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Upon termination, the assets of the joint venture will be liquidated or sold and the proceeds will be allocated thus:

- a) if the Company (through InforNet) has not yet recouped its invested capital, 100% goes to InforNet and none goes to Xin Hai.
- b) if the Company has already recouped its invested capital, 80% goes to InforNet and 20% goes to Xin Hai.

EVENTS OF DEFAULT

If any party fails to perform its duties specified in the present joint venture contract or in the Articles of Association, or if the party seriously breaches the provisions of the joint venture contract or of the Articles of Association, and thereby causes damage to the operations of the joint venture company or causes directly or indirectly, the failure to reach the goals regarding the operations specified in the joint venture contract, such act shall be deemed an event of default by the party which breaches the joint venture contract. The other party is entitled to claim for remedy, and shall have the right to terminate the joint venture contract by filing an application to the competent examination and approval authorities. Should the joint venture company continue to operate, the party which breaches the joint venture contract must compensate for the economic losses and damages incurred by the joint venture company and the shareholders thereof.

FINANCIAL REPORTS

The Company will receive a joint venture annual report within eighty (80) days after the end of each fiscal year containing: audited financial statements as at the end of, and for, the fiscal year (prepared in accordance with international generally accepted accounting principles (International GAAP) adopted in the PRC consistently applied, with comparative financial statements as at the end of, and for, the immediately preceding fiscal year) containing a balance sheet; a statement of profit and loss; a statement of changes in financial position; and a statement of change capital; a report of the Auditors on the financial statements stating that the financial statements have been prepared in accordance with international generally accepted accounting principles (International GAAP) adopted in the PRC consistently applied; and a report of allocations and distributions (whether directly or indirectly) to the Company and Xin Hai.

THE COMPANY BUSINESS

The Company offers a comprehensive suite of internet related services to the PRC markets. It believes that by offering a wide range of complementary services, it will be positioned to capitalize on the growth of the internet throughout the PRC.

THE COMPANY STRATEGY

The Company strategy is to capitalize on the internet growth in the PRC among Chinese users. It believes the Chinese