NEPHROS INC
Form POS AM
April 10, 2014

As filed with the Securities and Exchange Commission on April 10, 2014

Registration No. 333-169728

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

POST-EFFECTIVE AMENDMENT NO. 6

TO

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

NEPHROS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**3841**	**13-3971809**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I. R. S. Employer Identification No.)*

41 Grand Avenue

River Edge, New Jersey 07661

(201) 343-5202

(Address, Including Zip Code, and Telephone Number,

Including Area Code, of Registrant's Principal Executive Offices)

John C. Houghton

President, Chief Executive Officer
and Acting Chief Financial Officer

Nephros, Inc.

41 Grand Avenue

River Edge, New Jersey 07661

(201) 343-5202

(Name, Address, Including Zip Code, and Telephone Number,

Including Area Code, of Agent for Service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As promptly as practicable after this registration statement becomes effective and the satisfaction or waiver of certain other conditions described herein.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

EXPLANATORY NOTE

This Post-Effective Amendment No. 6 to Form S-1 (this “Post-Effective Amendment”) is being filed pursuant to Section 10(a)(3) of the Securities Act of 1933, as amended, to update the Form S-1 Registration Statement (Registration No. 333-169728), which was previously declared effective by the Securities and Exchange Commission (“SEC”) on January 31, 2011, to include the audited consolidated financial statements and the notes thereto included in the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 that have been filed with the SEC since the Post-Effective Amendment No. 5 to Form S-1 was declared effective by the SEC on April 17, 2013, and contains an updated prospectus relating to the offering and sale of the securities that were registered on Form S-1. As of the date of filing of this Post-Effective Amendment, no further offering will be made of the units registered on Form S-1. The rights offering was completed on March 10, 2011. Accordingly, this Post-Effective Amendment concerns only the exercise of the warrants underlying the units.

All applicable registration fees were paid at the time of the original filing of such Registration Statement on October 1, 2010.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Post-Effective Amendment No. 6 to the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities or the solicitation of an offer to buy these securities in any state in which such offer, solicitation or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION — DATED APRIL 10, 2014

Issuance of up to 2,261,975 Shares of Common Stock upon Exercise of Warrants

We previously sold 4,964,854 units, each unit consisting of one share of our common stock and a warrant to purchase 4,590,171 shares of our common stock (the “Units”). The warrants are exercisable for a five-year term following the issue date of the warrants, which was March 10, 2011, and have an exercise price of $0.40 per share. This prospectus relates to the issuance of shares of common stock pursuant to the exercise of the warrants to purchase an aggregate of 2,261,975 shares of common stock.

All costs associated with this registration statement will be borne by us. Shares of our common stock are quoted on the OTCQB Marketplace operated by the OTC Markets Group, Inc., or OTCQB, under the ticker symbol “NEPH.” On

April 1, 2014, the closing sales price for our common stock was $0.63 per share. The shares of common stock issued upon the exercise of warrants will also be quoted on the OTCQB under the same ticker symbol. Neither the warrants nor the subscription rights will be listed for trading on any stock exchange or market or quoted on the OTCQB.

On March 10, 2011, we completed our rights offering and a private placement that together resulted in gross proceeds of approximately $3.2 million. The aggregate net proceeds were approximately $2.3 million, after deducting the estimated aggregate expenses of these transactions which approximated $200,000, the repayment of the $500,000 note, plus $26,650 of accrued interest thereon, issued to Lambda Investors, LLC, the payment of an 8% sourcing/transaction fee of $40,000 in respect of the note and an aggregate of $100,000 for reimbursement of Lambda Investors' legal fees incurred in connection with the loan and the rights offering.

After giving effect to the 1:20 reverse stock split on March 11, 2011, our stockholders subscribed for 4,964,854 units in the rights offering and we accepted all basic subscription rights and oversubscription privileges. The units were sold at a per unit purchase price of $0.40. Gross proceeds to us from the sale of these units in the rights offering was approximately $2.0 million. We issued an aggregate of 4,964,854 shares of our common stock and warrants to purchase an aggregate of approximately 4,590,171 shares of our common stock to stockholders who subscribed.

Simultaneously with the closing of the rights offering, Lambda Investors, LLC purchased in a private placement 3,009,711 units at the same per unit purchase price of $0.40, pursuant to a purchase agreement between us and Lambda Investors. We issued to Lambda Investors an aggregate of 3,009,711 shares of common stock and warrants to purchase an aggregate of 2,782,579 shares of common stock. Of the $3.2 million in gross proceeds from the rights offering and the private placement, we received approximately $1.2 million in gross proceeds from the sale of units to Lambda Investors.

We effected a reverse stock split, in which every 20 shares of our common stock issued and outstanding immediately prior to the effective time, which was 5:00 p.m. on March 11, 2011, were converted into one share of common stock. Fractional shares were not issued and stockholders who otherwise would have been entitled to receive a fractional share as a result of the reverse stock split received an amount in cash equal to $0.04 per pre-split share for such fractional interests. The number of shares of common stock issued and outstanding was reduced from approximately 201,300,000 pre-split to approximately 10,100,000 post-split. The reverse stock split was effected in connection with the rights offering and private placement.

The reverse stock split was approved by our stockholders at the annual meeting held on January 10, 2011. The number of shares of common stock subject to outstanding stock warrants and options, and the exercise prices and conversion ratios of those securities, were automatically proportionately adjusted for the 1-for-20 ratio provided for by the reverse stock split.

All of the share and per share amounts discussed in this Post-Effective Amendment have been adjusted to reflect the effect of this reverse split.

Investing in our common stock involves substantial risks. See " Risk Factors " beginning on page 9 of this prospectus to read about important factors you should consider before purchasing our common stock.

We do not intend to sell any more Units.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is April , 2014.

-3-

NEPHROS, INC.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

We refer to Nephros, Inc. and its consolidated subsidiary as "Nephros", the "Company", "we", "our", and "us". This prospectu is part of a registration statement that we have filed with the Securities and Exchange Commission, which we refer to as the SEC or the Commission, utilizing a registration process. It is important for you to read and consider all of the information contained in this prospectus and any applicable prospectus before making a decision whether to invest in the common stock. You should also read and consider the information contained in the exhibits filed with our registration statement, of which this prospectus is a part, as described in "Where You Can Find More Information" in this prospectus.

You should rely only on the information contained in this prospectus and any applicable prospectus supplement, including the information incorporated by reference. We have not authorized anyone to provide you with different information. We are not offering to sell or soliciting offers to buy, and will not sell, any securities in any jurisdiction where it is unlawful. You should assume that the information contained in this prospectus or any prospectus supplement, as well as information contained in a document that we have previously filed or in the future will file with the SEC is accurate only as of the date of this prospectus, the applicable prospectus supplement or the document containing that information, as the case may be.

PROSPECTUS SUMMARY

This summary highlights information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information that is important to you. For a more complete understanding of our business, you should read this summary together with the more detailed information and financial statements for the years ended December 31, 2013 and 2012, and related notes appearing elsewhere in this prospectus. You should read this entire prospectus carefully, including the "Risk Factors" section beginning on page 9 and the "Special Note Regarding Forward-Looking Statements" section beginning on page 21. This prospectus contains important information that you should consider when making your investment decision.

About the Company

Nephros is a commercial stage medical device company that develops and sells high performance liquid purification filters. Our filters, which we call ultrafilters, are primarily used in dialysis centers for the removal of biological contaminants from water, bicarbonate concentrate and/or blood. Because our ultrafilters capture contaminants as small as 0.005 microns in size, they minimize exposure to a wide variety of bacteria, viruses, fungi, parasites and endotoxins.

Our ultrafilters use proprietary hollow fiber technology. We believe the hollow fiber design allows our ultrafilters to optimize the three elements critical to filter performance:

- Filtration - as low as 0.005 microns
- Flow rate - minimal disruption
- Filter life - up to 12 months

We were founded in 1997 by healthcare professionals affiliated with Columbia University Medical Center/New York-Presbyterian Hospital to develop and commercialize an alternative method to hemodialysis (HD). We have extended our filtration technologies to meet the demand for liquid purification in other areas, in particular water purification.

Our Products

Presently, we offer ultrafilters for sale to customers in four markets:

o *Dialysis Centers - Water/Bicarbonate:* Filtration of water or bicarbonate concentrate used in hemodialysis devices

- *Dialysis Centers - Blood:* Clearance of toxins from blood using an alternative method to HD in patients with chronic renal failure

- *Military and Outdoor Recreation:* Highly compact, individual water purification devices used by soldiers to produce drinking water in the field

- *Hospitals and Other Commercial Facilities:* Filtration of water for drinking and washing

Our Target Markets

Dialysis Centers - Water/Bicarbonate. To perform hemodialysis, all dialysis clinics have dedicated water purification systems to produce water and bicarbonate concentrate. Water and bicarbonate concentrate are essential ingredients for making dialysate, the liquid that removes waste material from the blood. Within the U.S., there are approximately 5,700 clinics with 100,000 dialysis machines providing over 50 million dialysis treatments to 370,000 patients annually.

Medicare is the main payer for dialysis treatment in the U.S. To be eligible for Medicare reimbursement, dialysis centers must meet the minimum standards for water and bicarbonate concentrate quality set by the Association for the Advancement of Medical Instrumentation (AAMI), the American National Standards Institute (ANSI) and the International Standards Organization (ISO). We anticipate that the stricter standards approved by these organizations in 2009 will be adopted by Medicare in the near future.

Published studies have shown that the use of ultrapure dialysate can make patients healthier and reduce their dependence on erythropoietin (EPO), an expensive drug used in conjunction with HD. By reducing the level of dialysate contaminants, specifically cytokine-inducing substances that can pass into a patient’s blood stream, cytokine levels within a patient stay low, thus reducing systemic inflammation. When inflammation is low, inflammatory morbidities are reduced and a patient’s responsiveness to EPO is enhanced, consequently the overall need for the drug is reduced.

We believe that our ultrafilters are attractive to dialysis centers because they exceed currently approved and newly proposed standards for water and bicarbonate concentrate purity, assist in achieving those standards and may help dialysis centers reduce costs associated with the amount of EPO required to treat a patient. Our in-line filters are easily installed into the fluid circuits supplying water and bicarbonate concentrate just prior to entering each dialysis machine.

Dialysis Centers - Blood. The current standard of care in the U.S. for patients with chronic renal failure is HD, a process in which toxins are cleared via diffusion. Patients typically receive HD treatment at least 3 times weekly for 3-4 hours per treatment. HD is most effective in removing smaller, easily diffusible toxins. For patients with acute renal failure, the current standard of care in the U.S. is hemofiltration (HF), a process where toxins are cleared via convection. HF offers a much better removal of larger sized toxins when compared to HD. However, HF treatment is performed on a daily basis, and typically takes 12-24 hours.

Hemodiafiltration (HDF) is an alternative dialysis modality that combines the benefits of HD and HF into a single therapy by clearing toxins using both diffusion and convection. Though not widely used in the U.S., HDF is much more prevalent in Europe and is performed in approximately 16% of patients. Clinical experience and literature show the following multiple clinical and patient benefits of HDF:

- Enhanced clearance of middle and large molecular weight toxins
- Improved survival - up to a 35% reduction in mortality risk
- Reduction in the occurrence of dialysis-related amyloidosis
- Reduction in inflammation
- Reduction in medication such as EPO and phosphate binders
- Improved patient quality of life
- Reduction in number of hospitalizations and overall length of stay

However, like HF, HDF can be resource intensive and can require a significant amount of time to deliver one course of treatment.

We have developed a modified approach to HDF which is more patient-friendly, less resource-intensive, and can be used in conjunction with current HD machines. We refer to our approach as an online mid-dilution hemodiafiltration (mid-HDF) system and it consists of our OLpūr H2H Module and OLpūr MD 220 Hemodiafilter. The OLpūr H2H HDF Module and OLpūr MD 220 Hemodiafilter is cleared by the U.S. Food and Drug Administration (FDA) to market for use with a UF controlled hemodialysis machine that provides ultrapure dialysate in accordance with current ANSI/AAMI/ISO standards, for the treatment of patients with chronic renal failure in the United States. Our on-line mid-dilution HDF system is the only on-line mid-dilution HDF system of its kind to be cleared by the FDA to date.

We have completed preparation of our OLpūr H2H HDF Modules and have manufactured initial lots of our OLpūr MD220 Hemodiafilters, H2H Substitution filters and H2H water filters. We have finalized our service contract and are in the process of finalizing site selection in anticipation of market release. We have experienced delays with the approval process at our initial placement site in the U.S. but expect to place our on-line mid-dilution HDF system in a U.S. dialysis clinic in the second quarter of 2014. We have not begun to broadly market our on-line mid-dilution HDF system and are actively seeking a commercialization partner in the U.S.

Military and Outdoor Recreation. The military is heavily reliant on the use of bottled water to support its soldiers in the field. Bottled water is not always available, is very costly to move, resource intensive, and prone to constant supply disruptions. Soldiers conducting operations in isolated and rugged terrain must be able to use available local water sources when unable to resupply from bulk drinking water sources or bottled water. Therefore, the soldier needs the capability to purify water from indigenous water sources in the absence of available potable water. Soldiers must have the ability to remove microbiological contaminants in the water to Environmental Protection Agency specified levels.

We offer our individual water purification device (IWPD), which allows a soldier in the field to derive biologically safe water from any fresh water source. Our IWPD is available in both in-line and point-of-use configurations. Our IWPD is one of the few portable filters that has been validated by the military to meet the NSF Protocol P248 standard. It has also been approved by U.S. Army Public Health Command (USAPHC) and U.S. Army Test and Evaluation Command (ATEC) for deployment. To date, we have received purchase orders for approximately 2,000 IWPDs from individual units of the U.S. armed forces.

In response to a Special Notice Announcement from the U.S. Army, Nephros submitted its (IWPD) containing the Nephros proprietary ultrafilter technology for consideration as part of a standard issue personal hydration pack for soldiers in the field. Nephros has been informed by the Military Government Review Agency that its IWPD has been validated to meet the military’s NSF P248 standard as a microbiological water treatment device for military operations. In February 2013, Nephros submitted its response to a U.S. Army request for proposal (RFP) relating to IWPDs. In

March 2013, we received notification from the U.S. Army that the Government has completed the initial evaluation of our proposal and found Nephros to be within the competitive range to commence negotiations. We also received a request for 180 of our IWPDs to be used as test assets during the Limited User Evaluation (LUE) phase of the source selection. As of March 2014, we have confirmed with the U.S. Army that the RFP LUE period was still ongoing. The U.S. Army may award several, one or no contracts as a result of this solicitation. The maximum quantity of all contracts combined is not to exceed 450,000 units or $45,000,000 over a 3 year period.

In addition to the RFP, we continue to make our IWPD available to the U.S. military. During 2013, we signed distributor agreements with W.S. Darley & Company, Source One Distribution Inc. and Atlantic Diving Supply, Inc. The UF40L and 30L recently were listed on the Darley website.

In September 2013, we were awarded the contract for 30 UF-40L units in response to RFI Solicitation Number: M67854-13-I-7310 from the U.S. Marine Corp Warfighting Laboratory. We are currently waiting for final feedback from this testing.

Hospitals and Other Commercial Facilities. In October 2013, We announced the voluntary recalls of our point of use (POU) and DSU in-line ultrafilters used in hospital water treatment applications. As a result, we recalled all production lots of our POU filters, and also requested that customers remove and discard certain labeling/promotional materials for the products. In addition, we also requested, for the DSU in-line ultrafilter, that customers remove and discard certain labeling/promotional materials for the product. These voluntary recalls did not affect our dialysis products. We are working towards a resolution of the issues raised by the FDA and we are unable to predict at this time what additional effect this recall might have on our business, financial condition, future prospects or reputation or whether we may be subject to future actions from the FDA.

We have launched our new NanoGuard-D and NanoGuard-S in-line ultrafilters for the filtration of water which is to be used for drinking and washing. The NanoGuard-D and NanoGuard-S trap particulates greater than 5nm in size and the water permeability (the ease at which water can pass through a membrane at a given pressure) of the membrane is higher than membranes with a similar pore size. This provides improved flow performance relative to the physical size of the filter. We anticipate that the filters will be used as a component of a facility water treatment system and also for filtering water to be used in ice machines.

Corporate Information

We were incorporated under the laws of the State of Delaware in April 1997. Our principal executive offices are located at 41 Grand Avenue, River Edge, New Jersey, 07661, and our telephone number is (201) 343-5202. We also have an office in Dublin, Ireland. For more information about Nephros, please visit our website at *www.nephros.com*.

Where You Can Find More Information

We make available free of charge on our website (http://www.nephros.com) our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We provide electronic or paper copies of filings free of charge upon request. The public may read and copy any materials filed with the SEC at the SEC’s Public Reference Room at 100 F Street N.E. Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the SEC at http://www.sec.gov.

The Offering

The following summary describes the principal terms of the rights offering, but is not intended to be complete.

Securities Offered	2,261,975 shares of common stock issuable upon exercise of the warrants issued in connection with the Units sold on March 10, 2011.
Exercise Price and Term of Warrants	The warrants have an exercise price of $0.40 per share and are exercisable at any time prior to March 10, 2016. For a more complete description of the terms of the warrants, see "Description of Warrants."
Use of Proceeds	The proceeds of this offering consist solely of the payment by warrant holders of the exercise price. We plan to use the net proceeds of this offering to further develop our products and for general working capital purposes. For a more complete description of our intended use of proceeds from this offering, see "Use of Proceeds."
Risk Factors	The exercise of the warrants and the acquisition of our common stock involve substantial risks. See "Risk Factors" beginning on page 9 of this prospectus.

State Securities Law Matters	The issuance and exercise of warrants is subject to compliance with state securities laws and regulations. We reserve the right in some states to require stockholders, if they wish to participate, to state and agree upon exercise of their warrants that they are acquiring the shares for investment purposes only, and that they have no present intention to resell or transfer any shares acquired. This offering is not being made and our securities are not being offered in any jurisdiction where the offer is not permitted under applicable local laws. We have the right, in our sole discretion, to not effect registration or qualification of the shares underlying the warrants in any state or other jurisdiction, or take any other action required by any state or other jurisdiction to allow the offer to take place in that state or jurisdiction. If you reside in a state or other jurisdiction in which registration, qualification or other action is necessary with which we choose not to comply, you will not be eligible to participate in the offering.
Listing	The shares of our common stock issuable upon exercise of the warrants will be listed on the OTCQB under the ticker symbol “NEPH.”

Unless otherwise indicated, the information in this prospectus reflects a 1-for-20 reverse split of our common stock, which was effective on March 11, 2011.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this prospectus, before you decide whether to buy our securities. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Company

Our independent registered public accounting firm, in its audit report related to our financial statements for the fiscal year ended December 31, 2013, expressed substantial doubt about our ability to continue as a going concern.

Our independent registered public accounting firm has included an explanatory paragraph in its report on our financial statements included in this prospectus expressing doubt as to our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern. However, there can be no assurance that we will be able to do so. Our recurring losses and difficulty in generating sufficient cash flow to meet our obligations and sustain our operations raise substantial doubt about our ability to continue as a going concern, and our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Based on our current cash flow projections, we will need to raise additional funds through either the licensing or sale of our technologies or the additional public or private offerings of our securities. However, there is no guarantee that we will be able to obtain further financing, or do so on reasonable terms. If we are unable to raise additional funds on a timely basis, or at all, we would be materially adversely affected.

We have a history of operating losses and a significant accumulated deficit, and we may not achieve or maintain profitability in the future.

We have not been profitable since our inception in 1997. As of December 31, 2013, we had an accumulated deficit of approximately $101,228,000, primarily as a result of historical operating losses. We expect to continue to incur additional losses for the foreseeable future as a result of a high level of operating expenses, significant up-front expenditures, including the cost of clinical trials, production and marketing activities and very limited revenue from the sale of our products. We began sales of our first product in March 2004, and we may never realize sufficient revenues from the sale of our products or be profitable. Each of the following factors, among others, may influence the timing and extent of our profitability, if any:

- the market acceptance of our technologies and products in each of our target markets;

- our ability to effectively and efficiently manufacture, market and distribute our products;
- our ability to sell our products at competitive prices which exceed our per unit costs; and
- our ability to continue to develop products and maintain a competitive advantage in our industry.

If we violate any provisions of the FDC Act or any other statutes or regulations, then we could be subject to enforcement actions by the FDA or other governmental agencies.

We face a significant compliance burden under the FDC Act and other applicable statutes and regulations which govern the testing, labeling, storage, record keeping, distribution, sale, marketing, advertising and promotion of our medically approved products.

On October 30, 2013, we initiated a voluntary recall of our point of use (POU) and DSU in-line ultrafilters used in hospital water treatment applications. We initiated the voluntary recall of these POU filters because the FDA informed us that promotional materials for these non-medical water filtration products were determined to promote claims which constitute marketing the product as a medical device. In addition, we received reports from one customer of high bacterial counts that may be associated with the breakage of fiber in four filters. According to the reports received, one death and one infection may have occurred due to the failure mode associated with this voluntary recall. Investigation into these reports is ongoing. Prior to receiving the complaints mentioned previously, we received 29 additional complaints of high bacterial counts that may be associated with the breakage of filter fiber, since we began marketing the products. We have had no reports of adverse events associated with these 29 complaints. We are recalling all production lots of these POU filters, and are also requesting that customers remove and discard certain labeling/promotional materials for the products. We initiated the voluntary recall of the DSU in-line ultrafilter because the FDA informed us that promotional materials for these non-medical water filtration products were determined to promote claims which constitute marketing the product as a medical device. We are requesting that customers remove and discard certain labeling/promotional materials for the product.

If we violate the FDC Act or other regulatory requirements (either with respect to our POU or DSU ultrafilters or otherwise) at any time during or after the product development and/or approval process, we could be subject to enforcement actions by the FDA or other agencies, including:

- fines;
- injunctions;
- civil penalties;
- recalls or seizures of products;
- total or partial suspension of the production of our products;

- withdrawal of any existing approvals or pre-market clearances of our products;
- refusal to approve or clear new applications or notices relating to our products;
- recommendations that we not be allowed to enter into government contracts; and
- criminal prosecution.

Any of the above could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that our products will be safe or that there will not be product-related deaths, serious injuries or product malfunctions. Further, we are required under applicable law to report any circumstances relating to our medically approved products that could result in deaths or serious injuries. These circumstances could trigger recalls, class action lawsuits and other events that could cause us to incur expenses and may also limit our ability to generate revenues from such products.

We cannot assure you that our products will be safe or that there will not be product-related deaths or serious injuries or product malfunctions, which could trigger recalls, class action lawsuits and other events that could cause us to incur significant expenses, limit our ability to market our products and generate revenues from such products or cause us reputational harm.

In particular, the voluntary recalls of the POU and DSU in-line ultrafilters used in hospital water treatment applications announced on October 30, 2013 and the related circumstances could subject us to claims or proceedings by consumers, the FDA or other regulatory authorities which may adversely impact our sales and revenues.

Under the Food, Drug and Cosmetic Act (FDC Act), we are required to submit medical device reports, or MDRs, to the FDA to report device-related deaths, serious injuries and malfunctions of medically approved products that could result in death or serious injury if they were to recur. Depending on their significance, MDRs could trigger events that could cause us to incur expenses and may also limit our ability to generate revenues from such products, such as the following:

- information contained in the MDRs could trigger FDA regulatory actions such as inspections, recalls and patient/physician notifications;

- because the reports are publicly available, MDRs could become the basis for private lawsuits, including class actions; and

- if we fail to submit a required MDR to the FDA, the FDA could take enforcement action against us.

If any of these events occur, then we could incur significant expenses and it could become more difficult for us to market and sell our products and to generate revenues from sales. Other countries may impose analogous reporting requirements that could cause us to incur expenses and may also limit our ability to generate revenues from sales of our products.

Product liability associated with the production, marketing and sale of our products, and/or the expense of defending against claims of product liability, could materially deplete our assets and generate negative publicity which could impair our reputation.

The production, marketing and sale of kidney dialysis and water-filtration products have inherent risks of liability in the event of product failure or claim of harm caused by product operation. In particular, the voluntary recalls of the POU and DSU in-line ultrafilters used in hospital water treatment applications announced on October 30, 2013 and the related circumstances could subject us to claims or proceedings by consumers, the FDA or other regulatory authorities which may adversely impact our sales and revenues. Furthermore, even meritless claims of product liability may be costly to defend against. Although we have acquired product liability insurance for our products, we may not be able to maintain or obtain this insurance on acceptable terms or at all. Because we may not be able to obtain insurance that provides us with adequate protection against all potential product liability claims, a successful claim in excess of our insurance coverage could materially deplete our assets. Moreover, even if we are able to obtain adequate insurance, any claim against us could generate negative publicity, which could impair our reputation and adversely affect the demand for our products, our ability to generate sales and our profitability.

Some of the agreements that we may enter into with manufacturers of our products and components of our products may require us:

- to obtain product liability insurance; or

- to indemnify manufacturers against liabilities resulting from the sale of our products.

For example, the agreement with our contract manufacturer, or CM, requires that we obtain and maintain certain minimum product liability insurance coverage and that we indemnify our CM against certain liabilities arising out of our products that they manufacture, provided they do not arise out of our CM’s breach of the agreement, negligence or willful misconduct. If we are not able to obtain and maintain adequate product liability insurance, then we could be in breach of these agreements, which could materially adversely affect our ability to produce our products and generate revenues. Even if we are able to obtain and maintain product liability insurance, if a successful claim in excess of our insurance coverage is made, then we may have to indemnify some or all of our manufacturers for their losses, which could materially deplete our assets.

We face significant challenges in obtaining market acceptance of our products, which could adversely affect our potential sales and revenues.

Our products are new to the market, and we do not yet have an established market or customer base for our products. Acceptance of our products in the marketplace by both potential users, including chronic renal failure patients, and potential purchasers, including nephrologists, dialysis clinics and other health care providers, is uncertain, and our failure to achieve sufficient market acceptance will significantly limit our ability to generate revenue and be profitable. Market acceptance will require substantial marketing efforts and the expenditure of significant funds by us to inform dialysis patients and nephrologists, dialysis clinics and other health care providers of the benefits of using our products. We may encounter significant clinical and market resistance to our products and our products may never achieve market acceptance. We may not be able to build key relationships with physicians, clinical groups and government agencies, pursue or increase sales opportunities in Europe or elsewhere, or be the first to introduce hemodiafiltration therapy in the United States. Product orders may be cancelled, patients or customers currently using our products may cease to do so and patients or customers expected to begin using our products may not. Factors that may affect our ability to achieve acceptance of our chronic renal failure therapy products in the marketplace include whether:

- such products will be safe for use;
- such products will be effective;
- such products will be cost-effective;
- we will be able to demonstrate product safety, efficacy and cost-effectiveness;
- there are unexpected side effects, complications or other safety issues associated with such products; and
- government or third party reimbursement for the cost of such products is available at reasonable rates, if at all.

Acceptance of our water filtration products in the marketplace is also uncertain, and our failure to achieve sufficient market acceptance and sell such products at competitive prices will limit our ability to generate revenue and be profitable. Our water filtration products and technologies may not achieve expected reliability, performance and endurance standards. Our water filtration products and technology may not achieve market acceptance, including among hospitals, or may not be deemed suitable for other commercial, military, industrial or retail applications.

Many of the same factors that may affect our ability to achieve acceptance of our chronic renal failure therapy products in the marketplace will also apply to our water filtration products, except for those related to side effects, clinical trials and third party reimbursement.

If we are not able to successfully scale-up production of our products, then our sales and revenues will suffer.

In order to commercialize our products, we need to be able to produce them in a cost-effective way on a large scale to meet commercial demand, while maintaining extremely high standards for quality and reliability. If we fail to successfully commercialize our products, then we will not be profitable.

We expect to rely on a limited number of independent manufacturers to produce our products. Our manufacturers' systems and procedures may not be adequate to support our operations and may not be able to achieve the rapid execution necessary to exploit the market for our products. Our manufacturers could experience manufacturing and control problems as they begin to scale-up our future manufacturing operations, if any, and we may not be able to scale-up manufacturing in a timely manner or at a commercially reasonable cost to enable production in sufficient quantities. If we experience any of these problems with respect to our manufacturers' initial or future scale-ups of manufacturing operations, then we may not be able to have our products manufactured and delivered in a timely manner. Our products are new and evolving, and our manufacturers may encounter unforeseen difficulties in manufacturing them in commercial quantities or at all.

If we cannot develop adequate distribution, customer service and technical support networks, then we may not be able to market and distribute our products effectively and/or customers may decide not to order our products and, in either case, our sales and revenues will suffer.

Our strategy requires us to distribute our products and provide a significant amount of customer service and maintenance and other technical service. To provide these services, we have begun, and will need to continue, to develop a network of distribution and a staff of employees and independent contractors in each of the areas in which we intend to operate. We cannot assure that we will be able to organize and manage this network on a cost-effective basis. If we cannot effectively organize and manage this network, then it may be difficult for us to distribute our products and to provide competitive service and support to our customers, in which case customers may be unable, or decide not, to order our products and our sales and revenues will suffer.

We have limited experience selling our products to healthcare facilities, and we might be unsuccessful in increasing our sales.

Our business strategy depends in part on our ability to sell our products to hospitals and other healthcare facilities that include dialysis clinics. We have limited experience with respect to sales and marketing. If we are unsuccessful at manufacturing, marketing and selling our products, our operations and potential revenues will be materially adversely affected.

We cannot sell our products, including certain modifications thereto, until we obtain the requisite regulatory approvals and clearances in the countries in which we intend to sell our products. If we fail to receive, or experience a significant delay in receiving, such approvals and clearances, then we may not be able to get our products to market and enhance our revenues.

Our business strategy depends in part on our ability to get our products into the market as quickly as possible. We have obtained a Conformité Européene, or CE, mark, which demonstrates compliance with the relevant European Union requirements and is a regulatory prerequisite for selling our products in the European Union and certain other countries that recognize CE marking (collectively, “European Community”), for our OLpur mid dilution hemodiafilter series product and our Dual Stage Ultrafilter (“DSU”). We have not yet obtained the CE mark for any of our other products. On April 30, 2012, we announced that we received clearance from the FDA to market our OLpūr MD220 Hemodiafilter and OLpūr H2H Module for use with a hemodialysis machine that provides ultrapure dialysate in accordance with current ANSI/AAMI/ISO standards, for the treatment of chronic renal failure patients. We have not begun to broadly market these products and are actively seeking a commercialization partner in the U.S.

There is no assurance that any existing products that have not yet been approved, or any new products developed by us in the future, will be approved for marketing. The clearance and/or approval processes can be lengthy and uncertain and each requires substantial commitments of our financial resources and our management's time and effort. We may not be able to obtain further CE marking or regulatory approval for any of our existing or new products in a timely manner or at all. Even if we do obtain regulatory approval, approval may be only for limited uses with specific classes of patients, processes or other devices. Our failure to obtain, or delays in obtaining, the necessary regulatory clearance and/or approvals would prevent us from selling our affected products in the applicable regions. If we cannot sell some of our products in such regions, or if we are delayed in selling while waiting for the necessary clearance and/or approvals, our ability to generate revenues from these products will be limited.

We intend to market our products globally. Requirements pertaining to the sale of our products vary widely from country to country. It may be very expensive and difficult for us to meet the requirements for the sale of our products in many countries. As a result, we may not be able to obtain the required approvals in a timely manner, if at all. If we cannot sell our products in a particular region, then the size of our potential market could be reduced, which would limit our potential sales and revenues.

Clinical studies that may be required for our products are costly and time-consuming, and their outcome is uncertain.

Before obtaining regulatory approvals for the commercial sale of any of our products, other than those for which we have already received marketing approval in the United States and elsewhere, we must demonstrate through clinical studies that our products are safe and effective.

For products other than those for which we have already received marketing approval, if we do not prove in clinical trials that our products are safe and effective, we will not obtain marketing approvals from the applicable regulatory authorities. In particular, one or more of our products may not exhibit the expected medical benefits, may cause harmful side effects, may not be effective in treating dialysis patients or may have other unexpected characteristics that preclude regulatory approval for any or all indications of use or limit commercial use if approved. The length of time necessary to complete clinical trials varies significantly and is difficult to predict. Factors that can cause delay or termination of our clinical trials include:

- slower than expected patient enrollment due to the nature of the protocol, the proximity of subjects to clinical sites, the eligibility criteria for the study, competition with clinical trials for similar devices or other factors;
- lower than expected retention rates of subjects in a clinical trial;
- inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials;
- delays in approvals from a study site's review board, or other required approvals;
- longer treatment time required to demonstrate effectiveness;
- lack of sufficient supplies of the product;
- adverse medical events or side effects in treated subjects; and
- lack of effectiveness of the product being tested.

Even if we obtain positive results from clinical studies for our products, we may not achieve the same success in future studies of such products. Data obtained from clinical studies are susceptible to varying interpretations that could delay, limit or prevent regulatory approval. In addition, we may encounter delays or rejections based upon changes in regulatory policy for device approval during the period of product development and regulatory review of each submitted new device application. Moreover, regulatory approval may entail limitations on the indicated uses of the device. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested will delay or preclude our licensees or marketing partners from marketing our products or limit the commercial use of such products and will have a material adverse effect on our business, financial condition and results of operations.

In addition, some or all of the clinical trials we undertake may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals, which could prevent or delay the creation of marketable products. Our product development costs will increase if we have delays in testing or approvals, if we need to perform more, larger or different clinical trials than planned or if our trials are not successful. Delays in our clinical trials may harm our financial results and the commercial prospects for our products. Additionally, we may be unable to complete our clinical trials if we are unable to obtain additional capital.

We may be required to design and conduct additional clinical trials.

We may be required to design and conduct additional clinical trials to further demonstrate the safety and efficacy of our products, which may result in significant expense and delay. Regulatory agencies may require new or additional clinical trials because of inconclusive results from current or earlier clinical trials, a possible failure to conduct clinical trials in complete adherence to certain regulatory standards, the identification of new clinical trial endpoints, or the need for additional data regarding the safety or efficacy of our products. It is possible that regulatory authorities may not ultimately approve our products for commercial sale in any jurisdiction, even if we believe future clinical results are positive.

Significant additional governmental regulation could subject us to unanticipated delays which would adversely affect our sales and revenues.

Our business strategy depends in part on our ability to get our products into the market as quickly as possible. Additional laws and regulations, or changes to existing laws and regulations that are applicable to our business may be enacted or promulgated, and the interpretation, application or enforcement of the existing laws and regulations may change. We cannot predict the nature of any future laws, regulations, interpretations, applications or enforcements or the specific effects any of these might have on our business. Any future laws, regulations, interpretations, applications or enforcements could delay or prevent regulatory approval or clearance of our products and our ability to market our products. Moreover, changes that result in our failure to comply with the requirements of applicable laws and regulations could result in the types of enforcement actions by the FDA and/or other agencies as described above, all of which could impair our ability to have manufactured and to sell the affected products.

Protecting our intellectual property in our technology through patents may be costly and ineffective. If we are not able to adequately secure or enforce protection of our intellectual property, then we may not be able to compete effectively and we may not be profitable.

Our future success depends in part on our ability to protect the intellectual property for our technology through patents. We will only be able to protect our products and methods from unauthorized use by third parties to the extent that our products and methods are covered by valid and enforceable patents or are effectively maintained as trade secrets. Our 18 granted U.S. patents will expire at various times from 2018 to 2027, assuming they are properly maintained.

The protection provided by our patents, and patent applications if issued, may not be broad enough to prevent competitors from introducing similar products into the market. Our patents, if challenged or if we attempt to enforce them, may not necessarily be upheld by the courts of any jurisdiction. Numerous publications may have been disclosed by, and numerous patents may have been issued to, our competitors and others relating to methods and devices for dialysis of which we are not aware and additional patents relating to methods and devices for dialysis may be issued to our competitors and others in the future. If any of those publications or patents conflict with our patent rights, or cover our products, then any or all of our patent applications could be rejected and any or all of our granted patents could be invalidated, either of which could materially adversely affect our competitive position.

Litigation and other proceedings relating to patent matters, whether initiated by us or a third party, can be expensive and time-consuming, regardless of whether the outcome is favorable to us, and may require the diversion of substantial financial, managerial and other resources. An adverse outcome could subject us to significant liabilities to third parties or require us to cease any related development, product sales or commercialization activities. In addition, if patents that contain dominating or conflicting claims have been or are subsequently issued to others and the claims of these patents are ultimately determined to be valid, then we may be required to obtain licenses under patents of others in order to develop, manufacture, use, import and/or sell our products. We may not be able to obtain licenses under any of these patents on terms acceptable to us, if at all. If we do not obtain these licenses, we could encounter delays in, or be prevented entirely from using, importing, developing, manufacturing, offering or selling any products or practicing any methods, or delivering any services requiring such licenses.

If we file patent applications or obtain patents in foreign countries, we will be subject to laws and procedures that differ from those in the United States. Such differences could create additional uncertainty about the level and extent of our patent protection. Moreover, patent protection in foreign countries may be different from patent protection under U.S. laws and may not be as favorable to us. Many non-U.S. jurisdictions, for example, prohibit patent claims covering methods of medical treatment of humans, although this prohibition may not include devices used for such treatment.

If we are not able to secure and enforce protection of our trade secrets through enforcement of our confidentiality and non-competition agreements, then our competitors may gain access to our trade secrets, we may not be able to compete effectively and we may not be profitable. Such protection may be costly and ineffective.

We attempt to protect our trade secrets, including the processes, concepts, ideas and documentation associated with our technologies, through the use of confidentiality agreements and non-competition agreements with our current employees and with other parties to whom we have divulged such trade secrets. If these employees or other parties breach our confidentiality agreements and non-competition agreements, or if these agreements are not sufficient to protect our technology or are found to be unenforceable, then our competitors could acquire and use information that we consider to be our trade secrets and we may not be able to compete effectively. Policing unauthorized use of our trade secrets is difficult and expensive, particularly because of the global nature of our operations. The laws of other countries may not adequately protect our trade secrets.

If we are not able to maintain sufficient quality controls, then the approval or clearance of our products by the European Union, the FDA or other relevant authorities could be withdrawn, delayed or denied and our sales and revenues will suffer.

Approval or clearance of our products could be withdrawn, delayed or denied by the European Union, the FDA and the relevant authorities of other countries if our manufacturing facilities do not comply with their respective manufacturing requirements. The European Union imposes requirements on quality control systems of manufacturers, which are inspected and certified on a periodic basis and may be subject to additional unannounced inspections. Failure by our manufacturers to comply with these requirements could prevent us from marketing our products in the European Community. The FDA also imposes requirements through quality system requirements, or QSR, regulations, which include requirements for good manufacturing practices, or GMP. Failure by our manufacturers to comply with these requirements could prevent us from obtaining FDA approval of our products and from marketing such products in the United States. Although the manufacturing facilities and processes that we use to manufacture our OLpur MDHDF filter series have been inspected and certified by a worldwide testing and certification agency (also referred to as a notified body) that performs conformity assessments to European Union requirements for medical devices, they have not been inspected by the FDA. A “notified body” is a group accredited and monitored by governmental agencies that inspects manufacturing facilities and quality control systems at regular intervals and is authorized to carry out unannounced inspections. We cannot be sure that any of the facilities or processes we use will comply or continue to comply with their respective requirements on a timely basis or at all, which could delay or prevent our obtaining the approvals we need to market our products in the European Community and the United

States.

To market our products in the European Community, the United States and other countries, where approved, manufacturers of such products must continue to comply or ensure compliance with the relevant manufacturing requirements. Although we cannot control the manufacturers of our products, we may need to expend time, resources and effort in product manufacturing and quality control to assist with their continued compliance with these requirements. If violations of applicable requirements are noted during periodic inspections of the manufacturing facilities of our manufacturers, then we may not be able to continue to market the products manufactured in such facilities and our revenues may be materially adversely affected.

We may face significant risks associated with international operations, which could have a material adverse effect on our business, financial condition and results of operations.

We expect to manufacture and to market our products globally. Our international operations are subject to a number of risks, including the following:

- fluctuations in exchange rates of the United States dollar could adversely affect our results of operations;

- we may face difficulties in enforcing and collecting accounts receivable under some countries' legal systems;
- local regulations may restrict our ability to sell our products, have our products manufactured or conduct other operations;
- political instability could disrupt our operations;
- some governments and customers may have longer payment cycles, with resulting adverse effects on our cash flow; and
- some countries could impose additional taxes or restrict the import of our products.

Any one or more of these factors could increase our costs, reduce our revenues, or disrupt our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Common Stock and Warrants

There currently is a limited trading market for our Common Stock.

Our Common Stock currently does not meet all of the requirements for initial listing on a registered stock exchange. Our Common Stock is quoted on the OTCQB. Trading in our Common Stock on the OTCQB has been very limited. As a result, an investor may find it difficult to dispose of or to obtain accurate quotations as to the market value of our Common Stock, and our Common Stock may be less attractive for margin loans, for investment by financial institutions, as consideration in future capital raising transactions or other purposes. There is no guarantee that we will ever become listed on the Nasdaq Capital Market, or any other exchange, or that a liquid trading market for our Common Stock will develop.

Our Common Stock could be further diluted as a result of the issuance of additional shares of Common Stock, warrants or options.

In the past we have issued Common Stock and warrants in order to raise money. We have also issued stock options and restricted stock as compensation for services and incentive compensation for our employees, directors and consultants. We have shares of Common Stock reserved for issuance upon the exercise of certain of these securities and may increase the shares reserved for these purposes in the future. Our issuance of additional Common Stock, convertible securities, options and warrants could affect the rights of our stockholders, could reduce the market price of our Common Stock or could result in adjustments to exercise prices of outstanding warrants (resulting in these securities becoming exercisable for, as the case may be, a greater number of shares of our Common Stock), or could obligate us to issue additional shares of Common Stock.

Market sales of large amounts of our Common Stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our Common Stock, the supply of Common Stock available for resale could be increased which could stimulate trading activity and cause the market price of our Common Stock to drop, even if our business is doing well. Furthermore, the issuance of any additional shares of our Common Stock or securities convertible into our Common Stock could be substantially dilutive to holders of our Common Stock if they do not invest in future offerings.

The prices at which shares of the Common Stock trade have been and will likely continue to be volatile.

In the two years ended December 31, 2013, our Common Stock has traded at prices ranging from a high of $3.19 to a low of $0.31 per share. Due to the lack of an active trading market for our Common Stock, you should expect the prices at which our Common Stock might trade to continue to be highly volatile. The expected volatile price of our stock will make it difficult to predict the value of your investment, to sell your shares at a profit at any given time, or to plan purchases and sales in advance. A variety of other factors might also affect the market price of our Common Stock. These include, but are not limited to:

- achievement or rejection of regulatory approvals by our competitors or us;
- publicity regarding actual or potential clinical or regulatory results relating to products under development by our competitors or us;
- delays or failures in initiating, completing or analyzing clinical trials or the unsatisfactory design or results of these trials;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- regulatory developments in the United States and foreign countries;
- economic or other crises and other external factors;
- period-to-period fluctuations in our results of operations;
- threatened or actual litigation;
- changes in financial estimates by securities analysts; and
- sales of our Common Stock.

We are not able to control many of these factors, and we believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

In addition, the stock market in general, and the market for biotechnology companies in particular, has experienced extreme price and volume fluctuations in recent years that might have been unrelated or disproportionate to the operating performance of individual companies. These broad market and industry factors might seriously harm the market price of our Common Stock, regardless of our operating performance. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

We have never paid dividends and do not intend to pay cash dividends.

We have never paid dividends on our Common Stock and currently do not anticipate paying cash dividends on our Common Stock for the foreseeable future. Consequently, any returns on an investment in our Common Stock in the foreseeable future will have to come from an increase in the value of the stock itself. As noted above, the lack of an active trading market for our Common Stock will make it difficult to value and sell our Common Stock. While our dividend policy will be based on the operating results and capital needs of our business, it is anticipated that all earnings, if any, will be retained to finance our future operations.

Because we are subject to the "penny stock" rules, you may have difficulty in selling our Common Stock.

Our Common Stock is subject to regulations of the SEC relating to the market for penny stocks. Penny stock, as defined by the Penny Stock Reform Act, is any equity security not traded on a national securities exchange that has a market price of less than $5.00 per share. The penny stock regulations generally require that a disclosure schedule explaining the penny stock market and the risks associated therewith be delivered to purchasers of penny stocks and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. The broker-dealer must make a suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures, including the actual sale or purchase price and actual bid offer quotations, as well as the compensation to be received by the broker-dealer and certain associated persons. The regulations applicable to penny stocks may severely affect the market liquidity for your Common Stock and could limit your ability to sell your securities in the secondary market.

Several provisions of the Delaware General Corporation Law, our fourth amended and restated certificate of incorporation, as amended, and our second amended and restated bylaws could discourage, delay or prevent a merger or acquisition, which could adversely affect the market price of our Common Stock.

Several provisions of the Delaware General Corporation Law, our fourth amended and restated certificate of incorporation, as amended, and our second amended and restated bylaws could discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, and the market price of our Common Stock could be reduced as a result. These provisions include:

- authorizing our board of directors to issue “blank check” preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder unless certain provisions are met;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

As a smaller reporting company with little or no name recognition and with several risks and uncertainties that could impair our business operations, we are not likely to generate widespread interest in our Common Stock. Without widespread interest in our Common Stock, our Common Stock price may be highly volatile and an investment in our Common Stock could decline in value.

Unlike many companies with publicly traded securities, we have little or no name recognition in the investment community. We are a relatively new company and very few investors are familiar with either our company or our products. We do not have an active trading market in our Common Stock, and one might never develop, or if it does develop, might not continue.

Additionally, the market price of our Common Stock may fluctuate significantly in response to many factors, many of which are beyond our control. Risks and uncertainties, including those described elsewhere in this “Risk Factors” section could impair our business operations or otherwise cause our operating results or prospects to be below expectations of investors and market analysts, which could adversely affect the market price of our Common Stock. As a result, investors in our Common Stock may not be able to resell their shares at or above their purchase price and could lose all of their investment.

Securities class action litigation is often brought against public companies following periods of volatility in the market price of such company's securities. We may become subject to this type of litigation in the future. Litigation of this type could be extremely expensive and divert management's attention and resources from running our company.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results, which could have a material adverse effect on our business, financial condition and the market value of our securities.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our reputation and operating results may be harmed. If management is unable to express a favorable opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports. Any failure to achieve and maintain effective internal controls could have an adverse effect on our business, financial position and results of operations.

Our directors, executive officers and Lambda Investors LLC control a significant portion of our stock and, if they choose to vote together, could have sufficient voting power to control the vote on substantially all corporate matters.

As of April 1, 2014, our directors, executive officers and Lambda Investors LLC, our largest stockholder, beneficially owned approximately 48% of our outstanding Common Stock, representing approximately 60% on a fully-diluted basis. As a result of this ownership, Lambda Investors has the ability to exert significant influence over our policies and affairs, including the election of directors. Lambda Investors, whether acting alone or acting with other stockholders, could have the power to elect all of our directors and to control the vote on substantially all other corporate matters without the approval of other stockholders. Furthermore, such concentration of voting power could enable Lambda Investors, whether acting alone or acting with other stockholders, to delay or prevent another party from taking control of our company even where such change of control transaction might be desirable to other stockholders. The interests of Lambda Investors in any matter put before the stockholders may differ from those of any other stockholder.

Future sales of our Common Stock could cause the market price of our Common Stock to decline.

The market price of our Common Stock could decline due to sales of a large number of shares in the market, including sales of shares by Lambda Investors or any other large stockholder, or the perception that such sales could occur. These sales could also make it more difficult or impossible for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of Common Stock. Future sales of our Common Stock by stockholders could depress the market price of our Common Stock.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, non-affiliate stockholders may sell freely after holding their shares for six months and affiliates may sell freely after holding their shares for one year, in each case, subject to current public information, notice and other requirements. Any substantial sales of our Common Stock pursuant to Rule 144 may have a material adverse effect on the market price of our Common Stock.

The market price of our common stock may fall below the exercise price of the warrants issued in connection with the rights offering.

The warrants are currently exercisable and will expire on March 10, 2016. The market price of our common stock may fall below the exercise price for these warrants prior to their expiration. Any warrants not exercised by their date of expiration will expire worthless and we will be under no further obligation to the holders of warrants.

If an effective registration is not in place and a current prospectus is not available when an investor desires to exercise warrants, such investor may be unable to exercise his, her or its warrants, causing such warrants to expire worthless.

We will not be obligated to issue shares of common stock upon exercise of warrants unless, at the time such holder seeks to exercise such warrant, we have a registration statement under the Securities Act in effect covering the shares of common stock issuable upon the exercise of the warrants and a current prospectus relating to the common stock. We intend to use our best efforts to keep a registration statement in effect covering shares of common stock issuable upon exercise of the warrants and to maintain a current prospectus relating to the common stock issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure you that we will be able to do so, and if we do not maintain a current prospectus related to the common stock issuable upon exercise of the warrants, holders will be unable to exercise their warrants and we will not be required to settle any such warrant exercise. If the prospectus relating to the common stock issuable upon the exercise of the warrants is not current, the warrants held by public stockholders may have no value, we will have no obligation to settle the warrants for cash, the market for such warrants may be limited, such warrants may expire worthless and, as a result, an investor may have paid the full price solely for the shares of common stock included in the Units.

An investor will only be able to exercise a warrant if the issuance of common stock upon such exercise has been registered or qualified or is deemed exempt under the securities laws of the state of residence of the holder of the warrants.

No warrants will be exercisable and we will not be obligated to issue shares of common stock unless the shares of common stock issuable upon such exercise have been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Because the exemptions from qualification in certain states for resales of warrants and for issuances of common stock by the issuer upon exercise of a warrant may be different, a warrant may be held by a holder in a state where an exemption is not available for issuance of common stock upon an exercise and the holder will be precluded from exercise of the warrant. As a result, the warrants may be deprived of any value, the market for the warrants may be limited, the holders of the warrants may not be able to exercise their warrants and they may expire worthless if the common stock issuable upon such exercise is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus constitute "forward-looking statements". Such statements include statements regarding the efficacy and intended use of our technologies under development, the timelines for bringing such products to market and the availability of funding sources for continued development of such products and other statements that are not historical facts, including statements which may be preceded by the words "intends," "may," "will," "plans," "expects," "anticipates," "projects," "predicts," "estimates," "aims," "believes," "hopes," "potential" or similar words. Forward-looking statements are not guarantees of future performance, are based on certain assumptions and are subject to various known and unknown risks and uncertainties, many of which are beyond our control. Actual results may differ materially from the expectations contained in the forward-looking statements. Factors that may cause such differences include, but are not limited to, the risks that:

- we may not be able to continue as a going concern;
- the voluntary recalls of point of use (POU) and DSU in-line ultrafilters used in hospital water treatment applications announced on October 30, 2013 and the related circumstances could subject us to claims or proceedings by consumers, the FDA or other regulatory authorities which may adversely impact our sales and revenues;
- we face significant challenges in obtaining market acceptance of our products, which could adversely affect our potential sales and revenues;
- there are product-related deaths or serious injuries or product malfunctions, which could trigger recalls, class action lawsuits and other events that could cause us to incur expenses and may also limit our ability to generate revenues

from such products;

- we face potential liability associated with the production, marketing and sale of our products, and/or the expense of defending against claims of product liability, could materially deplete our assets and generate negative publicity which could impair our reputation;

- to the extent our products or marketing materials are found to violate any provisions of the FDC Act or any other statutes or regulations then we could be subject to enforcement actions by the FDA or other governmental agencies;

- we may not be able to obtain funding if and when needed or on terms favorable to us in order to continue operations;

- we may not have sufficient capital to successfully implement our business plan;

- we may not be able to effectively market our products;

- we may not be able to sell our water filtration products or chronic renal failure therapy products at competitive prices or profitably;

- we may encounter problems with our suppliers, manufacturers and distributors;
- we may encounter unanticipated internal control deficiencies or weaknesses or ineffective disclosure controls and procedures;
- we may not obtain appropriate or necessary regulatory approvals to achieve our business plan;
- products that appeared promising to us in research or clinical trials may not demonstrate anticipated efficacy, safety or cost savings in subsequent pre-clinical or clinical trials;
- we may not be able to secure or enforce adequate legal protection, including patent protection, for our products; and
- we may not be able to achieve sales growth in key geographic markets.

More detailed information about the Company and the risk factors that may affect the realization of forward-looking statements, including the forward-looking statements in this prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2013, is set forth in our filings with the SEC, including our other periodic reports filed with the SEC. We urge investors and security holders to read those documents free of charge at the SEC's web site at www.sec.gov. We do not undertake to publicly update or revise our forward-looking statements as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We received proceeds from the offer and sale of the Units, net of discounts, commissions and expense, of approximately $2,300,000. In the event of full exercise of all of the warrants that remain outstanding on April 1, 2014, we will receive additional net proceeds of approximately $980,000. The actual exercise of any of the warrants, however, is beyond our control and depends on a number of factors, including the market price of our common stock. There can be no assurance that any of the warrants will be exercised.

While we have no specific plan for the proceeds, we expect to use the net proceeds of this offering, if any, to further develop our products and for general working capital purposes. The principal reason for this offering is to provide shares of common stock issuable upon conversion of our outstanding warrants issued in connection with the offer and sale of the Units.

DETERMINATION OF OFFERING PRICE

The exercise price of $0.40 was not based on any discount to the market price of our common stock. The exercise price is not necessarily related to our book value, net worth or any other established criteria of value and may or may not be considered the fair value of our common stock included in the warrants. We did not consult with any financial or other advisor in determining the exercise price. After the date of this prospectus, our common stock may trade at prices above or below the exercise price. You should not consider the exercise price as an indication of value of our company or our common stock. You should not assume or expect that our shares of common stock will trade at or above the exercise price in any given time period. The market price of our common stock may decline during or after this offering, and you may not be able to exercise or sell the shares of our common stock. You should obtain a current quote for our common stock before exercising and make your own assessment of our business and financial condition, our prospects for the future, and the terms of the warrants. On April 1, 2014, the closing sale price of our common stock on the OTCQB Bulletin Board was $0.63 per share.

DILUTION

Our net tangible book value as of December 31, 2013 was approximately ($610,000) or approximately ($0.03) per share. Net tangible book value per share represents the amount of our total tangible assets, less our total liabilities divided by the number of outstanding shares of common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by the purchaser of shares of common stock upon the exercise of warrants and the net tangible book value per share of common stock immediately after the exercise of warrants.

After giving effect to the exercise of 2,446,614 warrants that remained outstanding at December 31, 2013 at an exercise price of $0.40, which would have resulted in 2,261,975 common shares being issued, our pro forma net tangible book value as of December 31, 2013 would have been $370,000 or $0.02 per share. This represents an immediate increase in net tangible book value of $0.05 per share to existing stockholders and an immediate dilution in net tangible book value of $0.38 per share to warrants exercised from this offering.

The shares outstanding as of December 31, 2013 used to calculate the information in this section exclude:

- 2,410,134 shares issuable upon the exercise of stock options outstanding on December 31, 2013; and
- 11,622,781 shares issuable upon the exercise of warrants outstanding on December 31, 2013.

Unless otherwise indicated, the information in this prospectus reflects a 1-for-20 reverse split of our common stock, which was effective on March 11, 2011.

DIVIDEND POLICY

We have neither paid nor declared dividends on our common stock since our inception. We do not anticipate paying any dividends on our common stock in the foreseeable future. We expect to retain future earnings, if any, for use in our development activities and the operation of our business. The payment of any future dividends will be subject to the discretion of our board of directors and will depend, among other things, upon our results of operations, financial condition, cash requirements, prospects and other factors that our board of directors may deem relevant. Additionally, our ability to pay future dividends may be restricted by the terms of any debt financing, tax considerations and applicable law.

MARKET FOR OUR COMMON STOCK

Our common stock is quoted on the OTCQB under the symbol “NEPH.” The following table sets forth the high and low bid and ask prices for our common stock as reported on the OTCQB for each quarter listed. All prices have been adjusted to reflect the effect of the reverse split effective March 11, 2011. Such over the counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Quarter Ended	High	Low
March 31, 2012	$1.09	$0.44
June 30, 2012	$3.19	$0.80
September 30, 2012	$1.98	$1.15
December 31, 2012	$1.40	$1.02
March 31, 2013	$1.49	$0.73
June 30, 2013	$1.25	$0.63
September 30, 2013	$1.71	$0.85
December 31, 2013	$1.25	$0.31

As of April 1, 2014, there were approximately 20 holders of record and approximately 1,000 beneficial holders of our common stock.

On April 1, 2014, the last reported sale price of our common stock on the OTCQB was $0.63 per share.

PLAN OF DISTRIBUTION

Pursuant to the terms of the warrants, the shares of common stock will be distributed to those warrant holders who surrender their warrant certificate with their subscription form, together with the payment of the exercise price, to our warrant agent, Continental Stock Transfer & Trust Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion includes forward-looking statements about our business, financial condition, and results of operations, including discussions about management's expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and you should not construe these statements either as assurances of performances or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse. A list of the known material factors that may cause our results to vary, or may cause management to deviate from its current plans and expectations, is included herein under "Risk Factors" and Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013. The following discussion should also be read in conjunction with the consolidated financial statements and notes included herein.

Going Concern

Our independent registered public accounting firm has included an explanatory paragraph in their report on our financial statements included in this prospectus which expressed doubt as to our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern. However, there can be no assurance that we will be able to do so. Our recurring losses and difficulty in generating sufficient cash flow to meet our obligations and sustain our operations raise substantial doubt about our ability to continue as a going concern, and our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Business Overview

Nephros is a commercial stage medical device company that develops and sells high performance liquid purification filters. Our filters, which we call ultrafilters, are primarily used in dialysis centers for the removal of biological contaminants from water, bicarbonate concentrate and/or blood. Because our ultrafilters capture contaminants as small as 0.005 microns in size, they minimize exposure to a wide variety of bacteria, viruses, fungi, parasites, and endotoxins.

Our ultrafilters use proprietary hollow fiber technology. We believe the hollow fiber design allows our ultrafilters to optimize the three elements critical to filter performance:

- Filtration - as low as 0.005 microns
- Flow rate - minimal disruption
- Filter life - up to 12 months

We were founded in 1997 by healthcare professionals affiliated with Columbia University Medical Center/New York-Presbyterian Hospital to develop and commercialize an alternative method to hemodialysis (HD). We have extended our filtration technologies to meet the demand for liquid purification in other areas, in particular water purification.

The following trends, events and uncertainties may have a material impact on our potential sales, revenue and income from operations:

- the market acceptance of our products in the United States and of our technologies and products in each of our target markets;

- our ability to effectively and efficiently manufacture, market and distribute our products;
- our ability to sell our products at competitive prices which exceed our per unit costs;
- the consolidation of dialysis clinics into larger clinical groups; and
- the current U.S. healthcare plan is to bundle reimbursement for dialysis treatment which may force dialysis clinics to change therapies due to financial reasons.

To the extent we are unable to succeed in accomplishing the foregoing, our sales could be lower than expected and dramatically impair our ability to generate income from operations.

Recently Adopted Accounting Pronouncements

There are no recent accounting pronouncements that are expected to have an effect on our consolidated financial statements set forth this prospectus.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires application of management’s subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results may differ substantially from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to consolidated financial statements included in this prospectus, we believe that the following accounting policies require the application of significant judgments and estimates.

Revenue Recognition

Revenue is recognized in accordance with Accounting Standards Codification ("ASC") Topic 605. Four basic criteria must be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the fee is fixed or determinable; and (iv) collectability is reasonably assured.

We recognize revenue related to product sales when delivery is confirmed by our external logistics provider and the other criteria of ASC Topic 605 are met. Product revenue is recorded net of returns and allowances. All costs and duties relating to delivery are absorbed by us. Shipments for all products are currently received directly by our customers.

We recognize the fixed license revenue under the Bellco license agreement on a straight line basis over the forty-two month expected obligation period which ends on December 31, 2014. Any difference between payments received and recognized revenue is reported as deferred revenue.

Deferred revenue on the accompanying December 31, 2013 consolidated balance sheet is approximately $703,000 and is related to the Bellco license agreement. We have recognized approximately $1,756,000 of revenue related to this license agreement to date and approximately $711,000 for the twelve months ended December 31, 2013, resulting in $703,000 being deferred over the remainder of the expected obligation period. We amortize the deferred revenue monthly over the expected obligation period which ends on December 31, 2014. This will result in expected recognized revenue of approximately $703,000 in the year ended December 31, 2014.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718 by recognizing the fair value of stock-based compensation in net income. The fair value of our stock option awards are estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections including expected stock price volatility and the estimated life of each award. In addition, the calculation of compensation costs requires that we estimate the number of awards that will be forfeited during the vesting period. The fair value of stock-based awards is amortized over the vesting period of the award. For stock awards that vest based on performance conditions (e.g. achievement of certain milestones), expense is recognized when it is probable that the condition will be met.

Accounts Receivable

We provide credit terms to our customers in connection with purchases of our products. We periodically review customer account activity in order to assess the adequacy of the allowances provided for potential collection issues and returns. Factors considered include economic conditions, each customer's payment and return history and credit worthiness. Adjustments, if any, are made to reserve balances following the completion of these reviews to reflect our best estimate of potential losses.

Inventory Reserves

Our inventory reserve requirements are based on factors including the products' expiration date and estimates for the future sales of the product. If estimated sales levels do not materialize, we will make adjustments to our assumptions for inventory reserve requirements.

Accrued Expenses

We are required to estimate accrued expenses as part of our process of preparing financial statements. This process involves identifying services which have been performed on our behalf, and the level of service performed and the associated cost incurred for such service as of each balance sheet date in our consolidated financial statements. Examples of areas in which subjective judgments may be required include costs associated with services provided by contract organizations for the preclinical development of our products, the manufacturing of clinical materials, and clinical trials, as well as legal and accounting services provided by professional organizations. In connection with such service fees, our estimates are most affected by our understanding of the status and timing of services provided relative to the actual levels of services incurred by such service providers. The majority of our service providers invoice us monthly in arrears for services performed. In the event that we do not identify certain costs, which have begun to be incurred, or we under- or over-estimate the level of services performed or the costs of such services, our reported expenses for such period would be too low or too high. The date on which certain services commence, the level of services performed on or before a given date and the cost of such services are often determined based on subjective judgments. We make these judgments based upon the facts and circumstances known to us in accordance with generally accepted accounting principles.

Results of Operations

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our annual results of operations will be impacted for the foreseeable future by several factors including the progress and timing of expenditures related to our research and development efforts, marketing expenses related to product launches, timing of regulatory approval of our various products and market acceptance of our products. Due to these fluctuations, we believe that the period to period comparisons of our operating results are not a good indication of our future performance.

The Fiscal Year Ended December 31, 2013 Compared to the Fiscal Year Ended December 31, 2012

Revenues

Total revenues for the year ended December 31, 2013 were approximately $1,740,000 compared to approximately $1,807,000 for the year ended December 31, 2012. Total revenues decreased approximately $67,000, or 4%, as a result of decreases of approximately $117,000 related to the Office of Naval Research, whose contract ended as of March 2012, and approximately $216,000 related to the sales credits recorded to reflect the impact of a voluntary product recall of point of use filters (POU) announced on October 30, 2013. These decreases were partially offset by an increase of approximately $31,000 related to the Bellco license agreement as well as underlying increases in total water filter sales. Total water filter sales increased by 23% from $1,005,000 in 2012 to $1,240,000 in 2013 reflecting growth in key business segments of dialysis water and hospital water. Dialysis water and hospital water sales increased by approximately 66% and 25%, respectively. These increases were partially offset by decreases in military water sales of approximately 83%.

-26-

Revenues were not significantly impacted by inflation or changing prices for the years ended December 31, 2013 or 2012.

Cost of Goods Sold

Cost of goods sold was approximately $898,000 for the year ended December 31, 2013 compared to approximately $737,000 for the year ended December 31, 2012. The increase of approximately $161,000, or 22%, in cost of goods sold was related to the increase in inventory reserves of approximately $210,000, $203,000 of which is a result of the October 2013 voluntary product recall and an increase in cost of goods sold of approximately $119,000 related to increased sales of water filters in key business segments during the year ended December 31, 2013. The increases were partially offset by a decrease in sales related to the Office of Naval Research combined with the impact of a voluntary product recall of point of use filters (POU) of approximately $168,000.

Research and Development

Research and development expenses were approximately $826,000 and $632,000, respectively, for the years ended December 31, 2013 and December 31, 2012. This increase of approximately $194,000, or 31%, is primarily due to an increase in research and development material and other project costs primarily related to our OLpūr H2H Module of approximately $104,000 and an increase in personnel related costs of approximately $88,000 during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Depreciation and Amortization Expense

Depreciation and amortization expense was approximately $223,000 for the year ended December 31, 2013 compared to approximately $151,000 for the year ended December 31, 2012, representing an increase of 48%. The increase of approximately $72,000 is due to amortization related to the asset recognized in conjunction with the License and Supply Agreement that began in the second quarter of the year ended December 31, 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were approximately $3,110,000 for the year ended December 31, 2013 compared to approximately $3,620,000 for the year ended December 31, 2012, representing a decrease of $510,000 or

14%. The decrease is primarily due to a decrease in legal and professional services expenses. In the twelve months ended December 31, 2013, approximately $229,000 of legal and professional services expenses were recorded in equity as a result of the May 2013 rights offering and approximately $204,000 were recorded as amortization of debt discount as they were fees paid in relation to the February 2013 Senior Secured Note. In addition, travel and other expenses decreased approximately $130,000 during the year ended December 31, 2013 compared to the year ended December 30, 2012. These decreases were partially offset by an increase in personnel related expenses of approximately $53,000, primarily a result of increased expenses related to bonus and stock-based compensation expense.

Interest Income

There was no interest income recognized for the year ended December 31, 2013 compared to approximately $2,000 for the year ended December 31, 2012. The decrease reflects the impact of having less cash on hand during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Interest Expense

Interest expense for the year ended December 31, 2013 was $94,000. There was no interest expense recognized for the year ended December 31, 2012. Interest expense for the year ended December 31, 2013 primarily relates to interest on the February 2013 Senior Secured Note and November 2013 Senior Secured Note each issued to Lambda Investors LLC of approximately $71,000 and interest of approximately $21,000 related to outstanding payables due to a vendor.

Amortization of Debt Discount

The Company accounts for debt issuance costs in accordance with ASC 835, which requires that costs paid directly to the issuer of the notes be reported in the balance sheet as a debt discount and amortized over the term of the associated debt. Amortization of debt discounts of approximately $257,000 for the year ended December 31, 2013, was due to fees paid to Lambda Investors LLC of approximately $204,000 and approximately $53,000 as a result of the issuance of the February 2013 Senior Secured Note and the November 2013 Senior Secured Note, respectively.

Other Income/Expense

Other income (expense), net, of approximately $33,000 includes approximately $50,000 of other expense for the year ended December 31, 2013, primarily due to approximately $36,000 related to foreign currency losses and approximately $14,000 related to the May 2013 rights offering warrant modification. Other expense was partially offset by other income of approximately $17,000, which consisted primarily of a refund of approximately $15,000 received as a result of the Steris agreement termination.

Other expense in the amount of approximately $14,000 for the year ended December 31, 2012 was primarily the result of approximately $18,000 related to the write-offs of vendor invoices which are no longer due. Other expense was partially offset by $4,000 related to foreign currency losses on invoices paid to an international supplier.

Off-Balance Sheet Arrangements

We did not engage in any off-balance sheet arrangements during the years ended December 31, 2013 and 2012.

Liquidity and Capital Resources

Our future liquidity sources and requirements will depend on many factors, including:

- the availability of additional financing, through the sale of equity securities or otherwise, on commercially reasonable terms or at all;
- the costs involved in connection with the voluntary recalls of our point of use and DSU in-line ultrafilters used in hospital water treatment applications announced on October 30, 2013 and the related circumstances;
- the market acceptance of our products, and our ability to effectively and efficiently produce and market our products;
- the continued progress in, and the costs of, clinical studies and other research and development programs;
- the costs involved in filing and enforcing patent claims and the status of competitive products; and
- the cost of litigation, including potential patent litigation and any other actual or threatened litigation.

We expect to put our current capital resources to the following uses:

- for the marketing and sales of our water-filtration products;
- to pursue business development opportunities with respect to our chronic renal treatment system; and
- for working capital purposes.

In response to liquidity issues experienced with our auction rate securities, and in order to facilitate greater liquidity in our short-term investments, on March 27, 2008, our board of directors adopted an Investment, Risk Management and Accounting Policy. Such policy limits the types of instruments or securities in which we may invest our excess funds in the future to: U.S. Treasury Securities; Certificates of Deposit issued by money center banks; Money Funds by money center banks; Repurchase Agreements; and Eurodollar Certificates of Deposit issued by money center banks. This policy provides that our primary objectives for investments shall be the preservation of principal and achieving sufficient liquidity to meet our forecasted cash requirements. In addition, provided that such primary objectives are met, we may seek to achieve the maximum yield available under such constraints.

At December 31, 2013, we had an accumulated deficit of approximately $101,228,000, and we expect to incur additional losses in the foreseeable future at least until such time, if ever, that we are able to increase product sales or licensing revenue.

On February 19, 2014, the Company entered into the First Amendment to License Agreement (the "First Amendment"), by and between the Company and Bellco, which amends the License Agreement, entered into as of July 1, 2011 by and between the Company and Bellco. Pursuant to the First Amendment, the Company and Bellco agreed to extend the term of the License Agreement through December 31, 2021. The First Amendment also expands the Territory covered by the License Agreement to include Sweden, Denmark, Norway, Finland, Korea, Mexico, Brazil, China and the Netherlands. The First Amendment further provides new minimum sales targets which, if not satisfied, will, at the discretion of the Company, result in conversion of the license to non-exclusive status. The Company has agreed to reduce the fixed royalty payment payable to the Company for the period beginning on January 1, 2015 through and including December 31, 2021. Beginning on January 1, 2015 through and including December 31, 2016, Bellco will pay us a royalty based on the number of units of Products sold per year in the Territory as follows: for the first 125,000 units sold, €1.75 per unit; thereafter, €1.25 per unit. In addition, the Company will receive a total of €450,000 in upfront fees in connection with the First Amendment, half of which were paid on February 19, 2014, and the other half of which are payable on March 31, 2014. In addition, the First Amendment provides that, in the event that the Company pursues a transaction to sell, assign or transfer all right, title and interest to the licensed patents to a third party, the Company will provide Bellco with written notice thereof and a right of first offer with respect to the contemplated transaction for a period of thirty (30) days. Anticipated payments from this License Agreement will be a positive source of cash flow to us.

On April 23, 2012, we entered into a License and Supply Agreement (the "License and Supply Agreement") with Medica, an Italy-based medical product manufacturing company, for the marketing and sale of certain filtration products based upon Medica's proprietary Medisulfone ultrafiltration technology in conjunction with our filtration products (collectively, the "Filtration Products"), and to engage in an exclusive supply arrangement for the Filtration Products. Under the License and Supply Agreement, Medica granted to us an exclusive license, with right of sublicense, to market, promote, distribute, offer for sale and sell the Filtration Products worldwide, excluding Italy for the first three years, during the term of the License and Supply Agreement. In addition, we granted to Medica an exclusive license under our intellectual property to make the Filtration Products during the term of the License and Supply Agreement. In exchange for the rights granted, we have agreed to make minimum annual aggregate purchases from Medica of €300,000, €500,000 and €750,000 for the years 2012, 2013 and 2014, respectively. In the year ended December 31, 2013, our aggregate purchase commitments totaled approximately €532,000. For calendar years thereafter, annual minimum amounts will be mutually agreed upon between Medica and us. In exchange for the license, we paid Medica €1,500,000 in three installments: €500,000 on April 23, 2012, €600,000 on February 4, 2013, and €400,000 on May 23, 2013. As part of the agreement, we have granted to Medica 300,000 options to purchase our common stock which will vest over the first three years of the agreement. As of September 2013, we have an understanding with Medica whereby we have agreed to pay interest to Medica at a 12% annual rate calculated on the principal amount of any outstanding invoices that are not paid pursuant to the original payment terms.

As of the date of this prospectus, we expect that the proceeds from the March 2014 rights offering and the First Amendment with Bellco will allow us to fund our operations into the third quarter of fiscal year 2014. This assumption excludes the impact of future cash receipts from operations. Our cash flow currently is not, and historically has not been, sufficient to meet our obligations and commitments. We must seek and obtain additional financing to fund our operations. If we cannot raise sufficient capital, in connection with offerings of our common stock or through other means, we will be forced to curtail our planned activities and operations or cease operations entirely and you will lose all of your investment in our Company. There can be no assurance that we could raise sufficient capital on a timely basis or on satisfactory terms or at all.

Net cash used in operating activities was approximately $3,583,000 for the year ended December 31, 2013 compared to approximately $1,547,000 for the year ended December 31, 2012. The most significant items contributing to this net increase of approximately $2,036,000 in cash used in operating activities during the year ended December 31, 2013 compared to the year ended December 31, 2012 are highlighted below:

- during 2013, our net loss increased by approximately $436,000 compared to 2012;
- during 2013, our accounts receivable decreased by approximately $820,000 compared to a decrease of approximately $1,006,000 during 2012;
- during 2013, our deferred revenue decreased by approximately $711,000 compared to an increase of approximately $680,000 during 2012; and
- during 2013, our accounts payable and accrued expenses increased by approximately $59,000 in the aggregate compared to an increase of approximately $904,000 during 2012;
- during 2013, license and supply fee payable decreased by $1,318,000;

Offsetting the above changes are the following items:

- during 2013, depreciation and amortization expense increased by approximately $72,000 compared to 2012;
- during 2013, we recorded amortization of debt issuance costs of $257,000, whereas amortization of debt issuance costs in 2012 were $0;
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during 2013, we recorded noncash interest expense of approximately $39,000, whereas noncash interest expense in 2012 was $0;

· during 2013, our stock-based compensation expense, a non-cash expense, increased by approximately $132,000 compared to 2012;

· during 2013, we recorded an inventory reserve of approximately $210,000 compared to $82,000 in 2012;

· during 2013, we recognized a gain on the sale of property and equipment of approximately $3,000 compared to a gain of approximately $55,000 in 2012 ;

· during 2013, our inventory increased by approximately $60,000 compared to an increase of approximately $147,000 during 2012;

Net cash provided by investing activities for the year ended December 31, 2013 was approximately $3,000 related to the sale of fully depreciated manufacturing equipment. Net cash used in investing activities for the year ended December 31, 2012 was $612,000 related to approximately $659,000 for the purchase of intangible assets associated with the Medica License and Supply Agreement and approximately $8,000 used for the purchase of equipment. Cash used in investing activities for the year ended December 31, 2012 was partially offset by proceeds received of approximately $55,000 related to the sale of property and equipment.

Net cash provided by financing activities for the year ended December 31, 2013 of $4,120,000, net of equity issuance costs of approximately $229,000, resulted primarily from gross proceeds of $3.0 million related to the issuance of common stock related to the May 2013 rights offering, proceeds from the issuance of the February 2013 Senior Secured Note and the November 2013 Senior Secured Note of $2.8 million and approximately $248,000 of proceeds resulting from the exercise of warrants. Net cash provided by financing activities was partially offset by the repayment of the $1.3 million February 2013 Senior Secured Note and payment of financing costs of $399,000. Net cash provided by"50%">

Tuition fees	144,696
Total	$ 3,475,337

The Company also carries deferred revenue of $3,053,282 for its SMS business in China and its education and training business.

RESULTS OF OPERATIONS

THE QUARTER ENDED MARCH 31, 2006 AS COMPARED WITH THE QUARTER ENDED MARCH 31, 2005.

Revenues. The Company had revenues of $1,459,944 in the first quarter of 2006 compared to $127,207 in the first quarter of 2005, an increase of 29.5%. The Company’s revenue in the first quarter of 2006, were in the form of net sales of Mobile marketing services (Quicknet) of $1,440,917 and tuition fees (Windsor) of $19,027, as compared with mobile market sales of $1,052,529 and tuition fees of $74,678 in the first quarter of 2005. The Company incurred operating expenses of $1,245,636 in the first quarter of 2006 compared to operating expenses of $725,161 in the first quarter of 2005. The Company had an operating loss of $82,157 in the first quarter of 2006, and a net loss of $57,599 compared to an operating income of $168,062 and a net income of $60,741 in the first quarter of 2005.

-18-

Index

Business Segments

During the quarter, the Company had revenues in two segments:	
Mobile marketing services	$1,440,917
Tuition fees	$19,027
The cost of revenue in each segment was:	
Mobile marketing services	$291,833
Tuition fees	$4,632
The gross profit from each of the business segments was:	
Mobile	$1,149,084
Tuition fees	$14,395
Total	$1,163,479

Net Income/Loss per Share: The per-share earnings for the first quarter of 2006 and 2005 were nil. The Company expects the trend of losses to continue at about the same rate in the succeeding periods.

THE YEAR ENDED DECEMBER 31, 2005 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2004.

Revenues. The Company achieved revenues of $4,902,628 in 2005, compared to $2,170,766 in 2004, in the form of net sales of mobile solution services and tuition fees from its subsidiaries: Quicknet and Windsor. The gross profit in 2005 was $3,475,337 compared to $1,697,531 in 2004.

Operating Expenses. The Company incurred operating expenses of $11,454,523 in 2005, compared to operating expenses of $1,939,747 in 2004 due largely to the inclusion of the “Fair Value of Warrants Issued,” in our August 2005 Offering, which accounts for $6,891,486. Advertisement, general expenses and salaries were also increased due to the increased sales scale.

Loss from Continuing Operations. Loss from continuing operations for 2005 was (9,163,453) compared to the 2004 operating loss of ($258,772). This was caused largely by the inclusion of the “Fair Value of Warrants Issued.”

Net Income. Net Loss to Common Stockholders in 2005 was ($9,163,453) in contrast to a Net Income of $3,018,672 in 2004. This was caused largely by the inclusion of the “Fair Value of Warrants Issued.”

Earnings per Share. Loss per share was ($0.52) in 2005 compared to earnings per share of $0.20 in 2004. This was caused largely by the inclusion of the “Fair Value of Warrants Issued,” which accounts for $6,891,486. Operating losses in 2005 were ($0.52) per share compared to ($0.02) per share in 2004.

Future Trends

In the mobile solution service business, the Company cannot assure that any profit on revenues can be maintained in the future, because it may have to continue, through its joint venture business, to advertise and promote its services and develop additional value-added services in order to preserve or increase its market share. In spite of taking measures to control expenses, operating losses may continue. If the Company acquires additional capital, for example through sale of stock in private placements or through investors exercising warrants, it may be able to advertise and promote its services more aggressively and expand its business more rapidly.

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.

On the education services side, we have operated for the past three years and competition is very fierce in the market. The Canadian government has tightened its budget on English training for new immigrants, which lead to the termination of government funding for Windsor, and this change had negative effects on its revenue. The Government-supported ELSA courses held at Windsor ended by March 31, 2005.

Index

Recent Accounting Pronouncements

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries as outlined in Note 2 to the Company's Consolidated Financial Statements. All significant inter-company transactions and balances have been eliminated on consolidation.

On October 2002, the FASB issued SFAS No. 147 - "Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9," which applies to the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS No. 147 removes the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangible assets. This statement is effective for acquisitions for which the date of acquisition is on or after October 1, 2002, and is not applicable to the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, amending FASB No. 123", and "Accounting for Stock-Based Compensation." This statement amends Statement No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. SFAS No. 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. The Company will adopt the disclosure provisions and the amendment to APB No. 28 to be effective for interim periods beginning after December 15, 2002.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables." EITF No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and rights to use assets. The provisions of EITF No. 00-21 will apply to revenue arrangements entered into in the fiscal periods beginning after June 15, 2003. The Company is currently evaluating the impact EITF No. 00-21 will have on its financial position and results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN46 is effective for all new interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN46 must be applied for the first interim or annual period beginning after June 15, 2003. Adequate disclosure has been made for all off balance sheet arrangements that it is reasonably possible to consolidate under FIN46.

The American Institute of Certified Public Accountants has issued an exposure draft SOP "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment ("PP&E")." This proposed SOP applies to all non-government entities that acquire, construct or replace tangible property, plant and equipment including lessors and lessees. A significant element of the SOP requires that entities use component accounting retroactively for all PP&E assets to the extent future component replacement will be capitalized. At adoption, entities would have the option to apply component accounting retroactively for all PP&E assets, to the extent applicable, or to apply component accounting as an entity incurs capitalizable costs that replace all or a portion of PP&E. The Company cannot evaluate the ultimate impact of this exposure draft until it becomes final.

BUSINESS

China Mobility Solutions, Inc. (“CHMS” or the “Company”) is one of the first companies to focus on providing mobile solutions to many diverse businesses throughout China. Through its subsidiary Quicknet, a short message service (“SMS”) provider in Beijing, China, the Company is presently focused on its mobile marketing solutions for enterprises. Quicknet is one of the first companies to focus on mobile solutions for businesses in China. Quicknet’s strategy of targeting corporate users is aimed at achieving a higher percentage of recurring revenue and better margins. The Company initially acquired (controlled) 51% of Quicknet in June 2004 and exercised its option to acquire the remaining 49% by September 30, 2005.

CHMS launched its mobile marketing services in July 2003 and became cash flow positive by the end of 2003. However, in accordance with U.S. GAAP, all revenue needs to be deferred for 12 months. Therefore, the Company had revenues of $1,871,960 from mobile marketing services in 2004 which increased to $4,703,348 in 2005. The Company’s operating loss increased from $242,216 in 2004 to $7,979,186 in 2005, primarily as a result of the inclusion of the “Fair Value of Warrants Issued” in our August 2005 Offering, as well as increases in advertisement, general expenses and salaries due to the increased sales scale. Investors should read the Company’s financial statements, especially the accompanying notes thereto.

Prior History

On September 6, 1996, the Company was incorporated under the laws of the State of Florida under the name of Placer Technologies, Inc. It conducted an initial public offering of 200,000 shares @ $0.25 per share and obtained $50,000 in capital. In December 1996, pursuant to a Rule 15c2-11 filing, the Company obtained approval to have its Common Stock quoted on the OTCBB, which is a national quotation service maintained by the NASD.

The Company’s initial primary service consisted of developing websites for small businesses in the U.S.A. It generated minimal revenues in 1996.

On April 2, 1997, the Company acquired a 100% interest in 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 was an experienced internet-related services provider, but the business suffered losses and was sold and discontinued in 2001.

Index

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

On July 24, 1998, the Company changed its name from Placer Technologies, Inc. to Xin Net Corp.

In June 2004, the Company changed its name to China Mobility Solutions, Inc. concurrent with a one-for-three reverse stock split.

On June 23, 2004, the Company consummated the acquisition of a 49% interest in Beijing Quicknet Technology Development Corp., a company organized under the laws of the People's Republic of China ("Quicknet"), pursuant to a share purchase agreement. The Company issued 6,120,000 shares of its Common Stock as payment. On September 30, 2005, the Company indirectly, through an affiliate, acquired control of the remaining outstanding shares of Common Stock of Quicknet, and paid US$2,000,000 on September 30, 2005 and an additional US$2,000,000 on or about December 31, 2005. See the discussion under the heading "Quicknet Acquisition" set forth below.

Corporate Overview

China Mobility's structure showing its subsidiaries is as follows, with the jurisdiction of incorporation of each subsidiary included in parentheses:

China Mobility Solutions, Inc.
(Florida, U.S.A.)

Infornet Investment Corp. (100% Owned) (BC, Canada)	Infornet Investment Ltd. (100% Owned) (Hong Kong)
Windsor Education Academy Inc. (100% Owned) (BC, Canada)	Beijing ShiJiYingFu Consultant Corp. Ltd. (100% Owned) (Beijing, China)
Xinbiz Corp. (100% Owned) (British Virgin Islands) (Dormant)	Xinbiz Ltd. (100% Owned by Xinbiz Corp.) (Hong Kong) (Dormant)
Beijing Quicknet Technology Development Corp. (49% Owned and 51% Indirectly Owned and Controlled)	

(Beijing, China)

The Company 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 Ltd. did not have any operations in the past three years.

Through its 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 China. This evolved into an internet-focused service provider and e-commerce solutions business. However, 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. On June 22, 2001, the Company entered into an agreement to sell its ISP assets (Xin Hai). The price for the sale was $700,000 (USD) payable to the Company in Renminbi at the official exchange rate. As of December 31, 2003, $500,000 had been received for the transaction. A loss provision of $200,000 was made against the balance of the sales price as the Company determined that the purchaser will not be able to pay the remaining balance.

Since the Company started its Internet-related business in China, it has seen rapid growth in Internet use in China; but it has also seen an equal, if not greater, growth in companies entering this arena. As a result, the industry experienced severely reduced operating margins and continued losses. Although the Company was considered an early leader in the domain name registration field, due to the lack of adequate funding future growth potential against the many competitors was limited at best. The Company had struggled for several years to break even and was hoping for required funding to grow, but the plan was nullified when the funding failed to materialize. Now, as China has become more and more open according to the terms of the World Trade Organization, the world’s largest, most well-funded companies have been given access to the China market and have seriously compromised the Company’s competitive position.

In February 2003, the Company signed an agreement to sell the Company’s China assets (domain name registration) to a subsidiary of Sino-i.com Limited, a Hong Kong Stock Exchange listed company, for a total consideration of RMB 20 million (approx. US$ 2.4 million). The Company has received the entire purchase price, and the divestiture was completed in 2004.

Index

Education Business

In 2002, the Company redirected its resources to the education and training field. On January 6, 2003, the Company announced the acquisition of Windsor Education Academy Inc. (“ Windsor”), a Richmond, British Columbia based school specializing in English as a Second Language (ESL) courses to foreign students. Total consideration was CAD$200,000 (about US$128,000). Windsor is government-certified and received a number of ESL students from the Provincial Government of British Columbia, but all government programs involving Windsor ended March 31, 2005. Windsor Academy has a campus in Richmond, British Columbia. They are equipped with personal computers and standard classroom fixtures. Because of the outbreak of SARS, and its implications for public health and travel to and from China, the Company could not consummate any other major acquisitions in China and in Hong Kong during a one-year period beginning in March 2003 and, therefore decided to maintain the operation of Windsor while looking for other opportunities.

Office Location

China Mobility Solutions, Inc. currently maintains an office at: #900 - 789 West Pender Street, Vancouver, BC Canada V6C 1H2 (telephone number is 1-604-632-9638).

Quicknet Acquisition

On June 23, 2004, the Company completed the acquisition of a 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 Chinese company (“Chinaco”), which then owned 2% of the equity interest of Quicknet having purchased a 1% interest from each of the two 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 nominal consideration, solely 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. At present, foreign investors such as the Company can only own up to 49% of telecommunications and related businesses in China. The 2% Chinaco interest will only be transferred to the Company at such time as Chinese law permits increased ownership of telecommunications and related businesses by foreign investors such as the Company. Chinese law does not currently permit such transfer, 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 its own equity ownership and its control of Chinaco.

Under the Quicknet Purchase Agreement, the Company had an option to acquire the remaining 49% equity interest in Quicknet through Chinaco from the Quicknet Shareholders within the first year for $4,000,000. The Company also had an option to acquire this remaining 49% equity interest in Quicknet within the second year for $5,000,000. The Quicknet Purchase Agreement provided that 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 shareholders of Quicknet, Mr. Bo Yu and Mr. Fang Hu, for a total of a 49% interest.

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. The Company has the right to appoint all of the directors 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, currently, the Company will be unable to directly own the remaining 51% interest held by Chinaco.

The Company exercised the option to purchase the remaining 49% of Quicknet in August 2005, within the first year from the Closing Date, for the agreed-upon purchase price of US$4,000,000. The purchase price had been paid in the form of cash. On September 30, 2005, the Company paid US$2,000,000, and paid another US$2,000,000 before December 31, 2005.

The Company raised (a) US$1,255,000 through issuing common stocks and (b) US$3,350,000 through issuing senior convertible debentures and Class A Warrants and Class B Warrants in 2005 in an offering exempt from registration pursuant to Regulation D under the Securities Act of 1933, as amended.

Index

Discontinued Internet Services

Up until late 2002, the Company's business was focused on domain name registration, web hosting and web design services under the ChinaDNS banner. It operated the website www.chinadns.com, the first in China to offer online site registration. In October 1999, ChinaDNS was approved as an Official Agent of Network Solutions, Inc.

Due to the continued loss on operations ($254,035 in 2002), in 2003, the Company entered into an agreement to sell the domain name registration business to China Enterprise, an ASP, for about $2,400,000, a sale which was completed in 2004. We are treating the DNS business as discontinued operations at this time, as China Enterprise is in full control of the assets.

CURRENT BUSINESS

Mobile Solutions for Businesses in China

The Company is focusing on providing mobile solutions to many diverse corporations across China. With its rapidly growing client base, the Company hopes to become one of the largest providers of mobile business solutions in China. The first product launched was mobile marketing solutions for enterprises, which has been in operation since 2003. In the summer of 2005, two new products were launched: a 'push'-based mobile email system and an office automation system.

Education and Training

The Company is currently offering English as a Second Language (ESL) and related courses through Windsor Education Academy at the Richmond campus.

PRODUCTS, SERVICES, MARKETS AND METHODS OF DISTRIBUTION

Mobile Solutions: Quicknet in China

Products and Services:

Mobile Marketing

The first mobile solution launched by the Company was mobile marketing. Mobile marketing is the use of the mobile medium as a communications and entertainment channel between a brand and an end-user. Mobile marketing is the only personal channel enabling spontaneous, direct, interactive and/or targeted communications, any time, any place. Mobile marketing can be used in a wide variety of ways:

- For customer acquisition
- For customer retention
- For loyalty building
- As a sales promotion tool
- To support product launches
- To raise brand awareness
- For internal communications
- As a redemption / coupon tool
- For direct marketing
- As an effective business-to-business communications vehicle

- As an additional revenue stream
- To be able to offer time / location specific offers
- As a channel for delivering ring tones and logos

Mobile marketing is growing in popularity. In Asia, eMarketer reports that 39% of mobile phone users have received SMS messages from advertisers, 36% in Europe and only 8% in the U.S. These figures point to a strong and growing trend among advertisers to embrace mobile marketing in different parts of the world and for consumers to be fairly receptive to it.

A study by Jupiter Research confirmed the effectiveness of SMS advertising. SMS has shown to be more than twice as effective as direct mail. An average SMS campaign generates a 15% response rate, compared with less than half that amount for direct mail. The survey also found that 94% of all advertising text messages are read. Furthermore, 23% are forwarded or shown to other users. As a result an average of 8% reply to the text message and 6% visit a Web site mentioned in the text.

Some consumers will tolerate ads and some will not. The issue of spam is one that is being addressed in the U.K. and the U.S. by the Mobile Marketing Association and by the Ministry of Information Industry ("MII") in China. "All disturbing SMS should be eradicated to help standardize the market and ensure the healthy development of the industry," said Chen Jinqiao, director of the Chinese Academy of Telecommunications Research under the MII.

By keeping messages small, by providing a benefit to the receiver, and by sending to companies that are already in China Mobility Solutions' database, the Companyis avoiding the perception that the messages it sends for its clients are "spam." Recent research conducted by the Wireless Internet Panel in Europe indicates that consumers' first reaction is to reject SMS advertising. However 64% of the same respondents changed their attitude if the SMS advertisements offered the candidate some benefit (e.g., provides information, inform receivers of promotions). The best way for marketers to distance themselves from spam, according to the Mobile Marketing Association, is to give consumers choice, control, constraint and confidentiality while insuring that they only receive relevant information.

Index

The Management of China Mobility Solutions is drawing upon successful examples of SMS advertising in other countries to make its offerings in China more valuable to its clients and well received by mobile phone users.

Some examples of positive SMS campaigns include:

· In London, successful trials were held of a location-based taxi-hailing service using GPS and mobile triangulation technologies. The solution included voice taxi hailing plus SMS customer recruitment, driver and customer CRM.

· A British women's clothing company used SMS to raise awareness of a new line of apparel. Mobile phone users were asked to type in a code to receive a £1 coupon. 20,000 coupons were requested in the first two weeks, plus there was significant data collection of names and addresses for further information.

· Chrysler used SMS advertising to generate leads for test drive bookings, by sending an SMS to over-21's living within 25km of one of the 32 Smart dealerships across the UK. The first 800 messages sent led to the sale of three Smart cars. The first 20,000 messages resulted in 1,500 test drives. Chrysler considered this to be an extremely successful and cost-effective campaign.

· Coke ran a "Cool Summer" campaign in Beijing and Shanghai, where users were encouraged to guess the highest daily temperature in Beijing, then download a Coke jingle ring tone and an 'm-coupon' for a free ice cream cone at McDonalds. 4 million messages were exchanged during the campaign, around 50,000 participants downloaded the Coke ad jingle, and 19,500 downloaded the coupon for McDonalds.

China Mobility Solutions' new market-ready solutions

China Mobility is working in cooperation with China's major mobile carriers, China Unicom and China Mobile, to provide mobile solutions for corporate customers.

Chinese companies in many different industries have a need for mobility services. Only telecom VAS providers have access to mobile carrier networks, so most of the 30 million enterprises in China would not be able to access mobile carriers networks, thus creating a demand for a "hub" that China Mobility has already built for Chinese companies. Rather than creating their own platforms to access the carriers' networks (and thus the country's cellular population), the companies will be able to access China Mobility Solutions' platform for a fee. China Mobility Solutions will act as the link between the companies and the carriers.

The Company's platform has been developed using the C programming language to facilitate high speed, create a more stable system, secure intellectual property rights protection, and provide complicated functions. The platform can be connected to using WAP or GPRS on digital GSM and CDMA networks. The platform is compatible with the carriers' networks, as it supports all bands - GSM, CDMA, GPRS and future 3G.

The following diagram illustrates the architecture of our platform:

China Mobility Solutions' Platform Architecture

China Mobility Solutions' platform is aimed at providing a solution for clients to allow their staff, customers, suppliers and partners to obtain information from their mobile phones without having to develop the technology themselves. The end users can load, edit, delete, read and share corporate information.

Index

China Mobility Solutions launched its office automation solutions in the summer of 2005. The Company's technical team has also successfully completed the technology to offer business solutions in three additional areas. These are:

- Mobile Banking
- Mobile Tax Services
- SMS-based Services for Police

China Mobility Solutions will receive annual fees for providing corporate clients with access to its technology/hub and for providing a certain amount of airtime. The mobile carrier will bill users a traffic fee for each SMS sent over its network.

The sending of clients' information will generate significant SMS traffic over the mobile phone networks. As a result, China Mobility Solutions will become increasingly important to the mobile carriers in China.

Descriptions of each type of service offering are below:

Office Automation Solutions

Status:	Market Ready
Costs to Launch:	4 million RMB (US$480,000) for fixed assets and marketing
Steps to Launch:	Raise funds, approach companies through agents
Target Market:	Small, medium and large businesses
Fee Per Year to Client:	5,000 RMB (US$600)

China had almost 400 million mobile phone subscribers as of the end of 2005, and management believes there will continue to be increasing demand from enterprises to reach this large market by using mobile phones as a new media for their marketing.

Mobile Email

China Mobility Solutions launched its mobile email system in June 2005. We developed the mobile email system with push-based technology that delivers email to the recipient's cell phone. The "push" technology means that email does not have to be retrieved but is automatically delivered.

The email system is appropriate for companies hoping to offer their customers a quality cell phone-based email system, and for use within companies to improve communications between employees. We intend to continue developing improvements and extensions of the system and to integrate it into many of our mobile business solutions.

Since the debut of our newly developed mobile email system, we have completed a successful road show in June and July of 2005. We have also discussed possible bundle services with several PC manufacturers and mobile phone manufacturers, and signed a contract with Lenovo to distribute our mobile email system.

Mobile Business Automation

China Mobility's Office Automation product was launched in August 2005. The system provides staff with enhanced access to the information they need when they need it, helps to eliminate paperwork, and changes/streamlines many business processes.

Index

Our office automation solution benefits clients in the areas of *CRM, sales force management, communications and inventory*. Our technology also facilitates the sending of messages and notices to employees and customers. The tool is especially useful for companies with field-based salespeople because it allows salespeople to access information in the Company's central database while at the client's site. Through SMS, salespeople can have access to useful information like current rates, technical specifications, client information, and inventory levels. They can also order products, book meetings, coordinate with other salespeople, and make reports through SMS. The office automation solution is designed to give sales reps a competitive edge through instant response to information needs, to help them close sales and generally be more productive in the field. Managers are able to approve verifications and other inquiries that are submitted by employees via their cell phones. Companies are able to send out service information, accept customer inquiries and reply to customer questions via SMS.

Some of the advantages of our office automation product are:

- It enables sales representatives to deliver information at point-of-contact in the field, via SMS;
- The user-company can configure the mobile field sales solution to model their unique sales needs with two-way communications;
- The solution can integrate critical customer information from back office records or legacy systems, giving the field sales team relevant information to complete an order;
- It can receive up-to-the-minute input from the field, providing real-time information for decision-making support from the office;
- Applications can support hundreds of simultaneous users and require no in-house program development.

The office automation tool also allows a company to communicate easily and effectively with its salespeople while they are in the field. Companies can send memos to employees to coordinate meetings, announce social events, or manage work schedules. It also allows salespeople to communicate among themselves more efficiently and for a lower cost than cellular phone conversations.

Our office automation product allows companies to improve internal communications in all areas, which can improve efficiency, reduce costs, increase revenues, improve employee productivity and improve customer satisfaction.

Method of Distribution and Marketing: Mobile Solutions

The Company will use four outlets to approach the market for its mobile business solutions: agents, mobile carriers, in-house sales staff and sales support branches. The Company also uses strategic partnership with industry leaders, print media, on-line advertisement, SMS campaigns, events and seminars as marketing tools.

Mobile Banking

Status:	Market Ready
Costs to Launch:	1.5 million RMB (US$180,000) for fixed assets and marketing
Steps to Launch:	Raise funds, approach banks through agents
Target Market:	Customers of banks
Fee Per Year to Client:	3,000 RMB (US$360)

Our mobile solutions will allow bank customers to check their account information, make transactions and be informed of new services.

Information that can be accessible via SMS includes account balances, recent transactions, interest rates and exchange rates.

Customers will be able to transfer funds between their bank accounts, make bill payments and report lost or stolen cards.

Business customers will be able to certify checks through their mobile phones.

Index

SMS-based Services for Police

Status:	Market Ready
Costs to Launch:	1.25 million RMB (U$150,000) for fixed assets and marketing
Steps to Launch:	Raise funds, approach police departments
Target Market:	Police Departments
Fee Per Year to Client:	5,000 RMB (US$600)

There are several functions that police stations will be able to perform through their cell phones once they implement our solution.

For example, the departments will be able to provide information on fines and fine payments, and deliver traffic information.

The mobile solution of the Company will also be beneficial for force management, specifically through location-based tracking and monitoring of officers and police cars.

The solution provided to the police stations will also include the base components of our Office Automation package.

Mobile Tax Services

Status:	Market Ready
Costs to Launch:	1.25 million RMB (U$150,000) for fixed assets and marketing
Steps to Launch:	Raise funds, approach tax offices
Target Market:	Tax Offices
Fee Per Year to Client:	2,000 RMB (US$240)

This solution will be similar to our Office Automation package, but will be tailored to government tax offices.

Tax offices will be able to provide and manage messages to staff and to tax filers.

Customer support will be a key function enhanced by our solution, as the offices will be able to send out notices about filing deadlines and respond to people's inquiries.

Tax officers will be able to submit and access tax reports by cell phone, even when away from their offices.

Education and Training

Educational Products and Services

Windsor provides ESL (English as a Second Language) and related courses in B.C., Canada. Windsor Education received a number of ESL students from the Provincial Government of British Columbia under government programs, but all government programs involving Windsor ended March 31, 2005.

In the past several years, supplementary education has become a multi-billion dollar business in China, the most popular being Foreign Schools, English Training, Data Processing, and Accounting. Started several years ago, this trend is still increasing with the integration of China into the world community as well as the growth in personal disposable income. Windsor plans to capitalize on this growth by providing North American courses to the Chinese market.

Method of Distribution and Marketing: Education

Windsor uses the printed media as well as recruitment agents to attract students. Word of mouth is also an important endorsement.

Index

Dependence On Client Base

For the mobile solutions business, we have signed contracts with a number of clients for varying types of marketing. The Company is relying on its agents, mobile carriers, in-house sales staff and supporting sales branches, as well as media and other marketing channels to increase its client base.

For the Education Services, there are approximately several dozen students every month. Windsor is relying on the printed media, word of mouth, recruiting agents and other marketing channels to increase the number of students.

Backlog of Orders: None.

Government Contracts: Windsor Education received a number of ESL students from the Provincial Government of British Columbia under government programs, but there is no commitment beyond the individual student's referral to our subsidiary. All government programs involving Windsor ended March 31, 2005.

Competition

Mobile Solutions

The Chinese economy has been among the fastest growing in the world for the past several years. China's economy grew 9.5% in 2004 with growth at the same rate in 2005. China has one of the largest and fastest-growing telecommunications markets in the world, and the mobile phone sector in particular has become the world's largest, with almost 400 million subscribers by the end of 2005. Mobile solutions, which use mobile phones as a new media, have created a large market in China. There are two types of markets in this field: the individual market and the corporate market. Competition in the individual market is fiercer than the corporate market because the individual market is very saturated and there are a large number of large and small competitors and thus has become less lucrative. Being early in the corporate market and possessing a database of nearly 500,000 corporate customers from its previous operations, the Company will have more growth potential than if the Company targeted the highly competitive consumer mobile market.

Education Services

In Windsor's business, the supplementary education and training market is very fragmented, there are very few large schools and numerous small ones, established mostly in larger cities worldwide. There are many keys to a school's success, such as: the quality of its curriculum and graduates, teachers and facilities, certifications and diplomas offered, location and accessibility, marketing and advertising, variety of programs offered, etc. The Company is striving to maintain its current level, exploring more opportunities from government projects, and seeking cooperation with other schools in mainland China. However, the Company is focusing on its mobile solution business, rather than education services.

Compliance With Related Laws And Regulations

In China, the Company relies on the advice of Chinese legal counsel to maintain compliance with all laws, rules, regulations and government policies in China. The telecom industry is subject to extensive government regulation, which regulations have been changing rapidly, and there is no assurance that the Company will not be adversely impacted by such regulations in the future.

On the Education Services side, Windsor is governed by the Laws of the Province of British Columbia, Canada. The Company is fully licensed to conduct its business in the Province. The Company is unable to assess or predict at this time what effect the regulations or legislation could have on its activities in the future.

Local Regulations

The Company cannot determine to what extent its future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations on a local level in Canada.

National Regulations

The Company cannot determine to what extent its future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations on a national level.

The value of the Company’s investments in China may be adversely affected by significant political, economic and social uncertainties in China. Any changes in policies by the government of China could adversely affect the Company by, among other factors, changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, the expropriation or nationalization of private enterprises, or political relationships with other countries.

Index

Employees

At March 31, 2006, Quicknet had approximately 75 employees. About 41% are technical support, 20% are in sales and marketing, 25% are R&D and the rest are administrative personnel. The actual number of employees changed during the year and will change according to the expansion of the Company in the future.

At March 31, 2006, Windsor had six employees, consisting of three full and part time teachers and three administrative personnel. The key to success is the ability to attract students. The number of employees will change as the students change. There is no collective bargaining unit at the academy.

Properties

China Mobility Solutions, Inc. currently maintains a leased office of approximately 800 square feet at: #900- 789 West Pender Street, Vancouver, BC Canada V6C 1H2 (telephone number is 1-604-632-9638). The term of the lease is month to month at a monthly rental of $800 from a non-affiliated landlord. It also leases an office as its headquarters in Beijing, at Room 601, 6/F, YinHai Building, No.10, ZhongGuanCun Road, HaiDian District, Beijing, China 100081, and leases offices in Shanghai and in Shenzhen. The term of the lease in Beijing is for 1.5 years ending June 30, 2007 at a monthly rental of about $11,000 from a non-affiliated landlord. Windsor currently rents approximately 1000 square feet at 2120 and 2125 8766 McKim Way, Richmond, BC, Canada. The term of the lease is for 1 year ending August 1, 2007 at a monthly rental of $1500 from a non-affiliated landlord.

Legal Proceedings

In the ordinary course of business, the Company may be involved in legal proceedings from time to time. As of the date of this report, the only legal proceedings to report were that:

On Feb. 7, 2005, China Mobility was sued by Sino-I Technology Limited for $88,270 for breach of warranty and a claim under a guarantee. Our lawyer submitted a Notice of Motion to the plaintiff’s lawyer on March 7, 2005. There has been no further response from the plaintiff’s lawyer. Regardless of the outcome of this motion, the Company intends to vigorously defend the suit.

No director, officer or affiliate of China Mobility Solutions, Inc., and no owner of record or beneficial owner of more than 5% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to it in reference to pending litigation.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table furnishes the information concerning the Company’s directors and executive officers as of the date of this prospectus.

Name	Age	Position
Xiao-qing Du	36	President and Director
Ernest Cheung	55	Director and Secretary
Greg Ye	36	Director

Bryan Ellis	35	Director

The term of office for each director is one (1) year, or until his/her successor is elected at the Company annual meeting and is qualified. The term of office for each of the officers is at the discretion of the Board of Directors.

Index

Identification of Certain Significant Employees.

Strategic matters and critical decisions are handled by the Company's directors and executive officers: Xiao-qing Du and Ernest Cheung. Day-to-day management is delegated to Xiao-qing (Angela) Du, partly in China and partly in Canada, and Xin Wei in China. Wei is an employee of the wholly owned subsidiary, Infornet Investment Corp. Xin Wei occupies the position of President of the Chinese subsidiary for strategy, planning and business development. Xiao-qing Du and Xin Wei are husband and wife.

The following is a brief account of the business experience during the past five years of each of the Company's directors and executive officers, including principal occupations and employment during that period and the name and principal business of any corporation or other organization in which such occupation and employment were carried on.

Xiao-Qing (Angela) Du, President and Director, age 36.

Ms. Du has been President and a Director of our Company since 2003. She received a Bachelor of Science in International Finance in 1992 from East China Normal University. She received a Master of Science in Finance and Management Science in 1996 from the University of Saskatchewan, Canada. She was Business Manager of China Machinery & Equipment I/E Corp. (CMEC) from 1992 to 1994. Since 1997, she has been President of Infornet Investment Corp., the Company's wholly owned subsidiary in Canada. She was President of China Mobility from 1997 to 1999. She ran the operations in China of the domain name service and web-hosting business.

Ernest Cheung, Secretary and Director, age 55.

Mr. Cheung has been Secretary of the Company since May 1998 and a director since May 1998. He received a B.A. in Math in 1973 from University of Waterloo, Ontario. He received an MBA in Finance and Marketing from Queen's University, Ontario in 1975. From 1991 to 1993 he was Vice President of Midland Walwyn Capital, Inc. of Toronto, Canada, now known as Merrill Lynch Canada. From 1992 until 1995 he served as Vice President and Director of Tele Pacific International Communications Corp. He has also served as President for Richco Investors, Inc. since 1995. He has been a director of the Company since 1996. He is currently a Director of Agro International Holdings, Inc., since 1997, Spur Ventures, Inc., since 1997, Richco Investors, Inc., since 1995 and Drucker Industries, Inc., since 1997. In 2000, he became President and a Director of China NetTV Holdings, Inc. In 2002, he became a Director of The Link Group, Inc. (formerly World Envirotech, Inc.).

Mr. Cheung is, or has been, an officer or director in the following public companies:

Name of Issuer	Symbol	Market	Position	From	To	Business
Agro International Holdings Inc.	AOH	CDNX	President	Jan-97	Current	Agriculture
China NetTV Holdings Inc.*	CTVH	OTCBB	President	May-00	2003	Set-Top Box Technology
Drucker, Inc.*	DKIN	OTCBB	Secretary	Apr-97	2003	Oil & Gas
ITI World Investment Group Inc.	IWI.A	CDNX		Jun-98	Current	Beverage Distribution
NetNation Communications Inc.	NNCI	Nasdaq Small Cap.		Apr-99	Current	Domain Name Registration
	YRU.A	CDNX	President	May-95	Current	

Richco Investors Inc.						Financial, Management, Capital Market Services
Spur Ventures Inc.	SVU	CDNX		Mar-97	Current	Fertilizer
The Link Group Inc.*	LNKG	OTCBB	Secretary	Dec-01	Current	Internet Surveillance
China Mobility Solutions, Inc.*	THE COMPANY	OTCBB	Secretary	Mar-97	Current	China Internet

* Reporting Companies in U.S.

He has held a Canadian Securities license but is currently inactive. He has been a Director and Secretary of the Company since January 1997.

Greg Ye, Director, age 36.

Mr. Ye has been a director since 2005. Mr. Ye brings to the Company 12 years of management, consulting and investment experience in a broad range of business and technology disciplines. He is currently in charge of developing and implementing corporate strategies as Group Director of Strategic Marketing for Cadence Design Systems Inc, one of the world's largest software companies, listed on both the NYSE and NASDAQ. Previously, he worked for Cisco Systems as a market development manager and PricewaterhouseCoopers, where he spent six years advising high-tech. companies based in the U.S. and Asia. He co-founded a Silicon Valley based incubator for high-tech companies in China in 1999 and serves as an advisor for several other high-tech. start-up companies in the U.S. Mr. Ye received his MBA from Harvard Business School and his BSEE from Shanghai Jiao Tong University, China. He is a Certified Public Accountant and a Certified Management Accountant.

Index

Bryan Ellis, Director, age 35.

Bryan D. Ellis joined the Company as a Director on December 8, 2005. He is General Manager of the Bertelsmann Book Club in Shanghai, China. Bryan has worked at Bertelsmann for the past 7 years in numerous senior management positions, including Senior Vice President of Marketing Services for Bookspan, Vice President of International Product Development for BOL.com and Vice President of Technology Strategy for the Bertelsmann e-Commerce Group. Before joining Bertelsmann, Bryan worked as a consultant for McKinsey & Company in their New York office for 3 years. He received both his Bachelor's Degree and Master's Degree in International Relations from Johns Hopkins University, and received an executive business school diploma from Harvard Business School.

Committees of the Board of Directors

Nominating Committee. The Board of Directors does not have a nominating committee. Therefore, the selection of persons or election to the Board of Directors was neither independently made nor negotiated at arm's length.

Compensation Committee. The Company established a Compensation Committee on October 5, 1999, which currently consists of three directors, Angela Du, Ernest Cheung and Grey Ye, the last being an independent director. The Compensation Committee is responsible for reviewing general policy matters relating to compensation and benefits of directors and officers and determining the total compensation of its officers and directors.

Audit Committee. On August 31, 1999, the Board of Directors established an Audit Committee, which currently consists of three directors, Angela Du, Ernest Cheung and Grey Ye, the last being an independent director. The Audit Committee is charged with recommending the engagement of independent accountants to audit Company financial statements, discussing the scope and results of the audit with the independent accountants, reviewing the functions of Company management and independent accountants pertaining to its financial statements and performing other related duties and functions as are deemed appropriate by the Audit Committee and the Board of Directors.

Qualified Financial Expert. Ernest Cheung is a qualified financial expert as a chartered accountant and an MBA with twenty years' experience in public companies.

Resolution of Conflicts of Interest

As mentioned earlier, some officers and directors will not devote more than a portion of their time to the affairs of the Company. There will be occasions when the time requirements of Company business conflicts with the demands of their other business and investment activities. Such conflicts may require that the Company attempt to employ additional personnel. There is no assurance that the services of such persons will be available or that they can be obtained upon terms favorable to the Company.

There is no procedure in place that would allow Company officers or directors to resolve potential conflicts in an arms-length fashion. Accordingly, they will be required to use their discretion to resolve conflicts in a manner that they consider appropriate.

Code of Ethics. On March 30,2006, our Board of Directors adopted a Code of Ethics which applies to all officers, directors and employees. We will provide a copy of the Code of Ethics, without charge, to any person who sends a written request to the secretary of China Mobility Solutions (#900 - 789 West Pender Street Vancouver, B.C. Canada V6C 1H2). A copy of the Code of Ethics has been filed as an exhibit to the Company's Annual Report on Form 10-KSB for December 31, 2005. The Company intends to disclose any waivers or amendments to the Code of Ethics in a Report on Form 8-K rather than from its Website.

Executive Compensation

The following table sets forth compensation paid by the Company for all services provided during the three fiscal years ended December 31, 2005: (1) to each of the executive officers, and (2) to all officers as a group.

Summary Compensation Table of Executives

	Cash Compensation					Security Grants			
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Annual Compensation**	**Restricted Stock Options**	**Securities, Underlying Options/SARs (#) (SHARES)**	**Long Term Compensation / Options**	**LTIP Payments**	**All other Compensation**
Xiao-qing Du,	2005	10,129	0	0	0	0	0	0	0
President of	2004	0	0	0	0	0	0	0	330,000(1)
Infornet Subsidiary	2003	0	0	0	0	0	0	0	0
Ernest Cheung,	2005	0	0	0	0	0	0	0	0
Secretary	2004	0	0	0	0	0	0	0	165,000(2)
	2003	0	0	0	0	0	0	0	0
Officers as a group	2005	10,129	0	0	0	0	0	0	0
	2004	0	0	0	0	0	0	0	495,000
	2003	0	0	0	0	0	0	0	0

(1) Options at $0.30 per share which were granted in 2004 and exercised in 2005.
(2) Options at $0.30 per share which were granted in 2004 and will expire on August 1, 2007.

Index

Option Grants in Last Fiscal Year

The following table sets forth certain information concerning options granted to the Named Executive Officers in the Summary Compensation Table above during the fiscal year ended December 31, 2005:

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted All Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date
Xiao-qing Du	None			
Ernest Cheung	None			

Aggregated Option Exercises During the Fiscal Year Ended December 31, 2005 and Fiscal Year End Option Values

The following table sets forth certain information concerning the number and value of securities underlying exercisable stock options as of the fiscal year ended December 31, 2005 by the Named Executive Officers. 330,000 options were exercised by the Named Executive Officers in the Summary Compensation Table during the fiscal year ended December 31, 2005.

Name	Number of Shares Acquired on Exercise (#)	Value Realized($)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End $ (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Xiao-qing Du	330,000	$9,900	0	0	0	0
Ernest Cheung	0	0	165,000	0 (1)	0 (1)	0

(1) The closing price for the Common Stock of the Company on December 31, 2005 was $0.33.

Long-Term Incentive Plant ("LTIP") Awards Table - None

The following table sets forth compensation paid by the Company for all services rendered during the three fiscal years ended December 31, 2005 to each director and all directors as a group.

Summary Compensation Table of Directors

		Cash Compensation				**Security Grants**		
Name and Principal Position	**Year**	**Annual Retainer Fees ($)**	**Meeting Fees ($)**	**Consulting Fees/Other Fees ($)**	**Number of Shares**	**Securities, Underlying Options/SARs (#) (SHARES)**	**LTIP Payments**	**All other Compensation**
Xiao-qing Du,	2005	0	0	0	0	0	0	0
Director	2004	0	0	0	0	0	0	0
	2003	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0

Ernest Cheung, Director	2004	0	0	0	0	0	0	0
	2003	0	0	0	0	0	0	0
Maurice Tsakok	2005	0	0	0	0	0	0	0
Director (1)	2004	0	0	0	0	0	0	0
(Resigned 2004)	2003	0	0	0	0	0	0	0
Greg Ye	2005	0	0	0	0	0	0	0
Director								
Bryan Ellis	2005	0	0	0	0	0	0	0
Director								
Directors as a group	2005	0	0	0	0	0	0	0
	2004	0	0	0	0	0	0	0
	2003	0	0	0	0	0	0	0

(1) On July 15, 2004, Maurice Tsakok resigned as a Director of the Company.

* See Executive Compensation Table.

Index

Directors' Compensation

Directors who are also officers of China Mobility receive no cash compensation for services as a director. However, the directors will be reimbursed for reasonable out-of-pocket expenses incurred in connection with attendance at board and committee meetings. The Company has granted options to directors under its Stock Incentive Plan adopted subsequent to December 31, 2005.

Termination of Employment and Change of Control Arrangements:

None.

Stock purchase options:

On November 12, 1999 the Company granted options to purchase shares at $3.90 per share to entities/persons who contributed to the Company in 1999, which are not expired, as follows:

(a) 87,333 options to Gemsco Management Ltd., beneficially Maurice Tsakok, for designing and implementing the Company's corporate website, advising on technological matters, researching the technology sector and for services as a Director;

(b) 87,333 options to Farmind Link Corp. for their role as advisor on strategic issues, technology market trends, and financial and capital market issues;

(c) 87,333 options to Sinhoy Management Ltd., beneficially Marc Hung, for their contributions to the general management of our company, investor relations, technological matters and for services as a Director;

(d) 70,667 options to Lancaster Pacific Investment, Ltd. for their contributions in the areas of regulatory matters, Chinese market conditions and strategies aimed at penetrating that market;

(e) 16,667 options to Ernest Cheung in consideration of services rendered as Secretary and Director;

(f) 6,667 options to Yonderiche International Consultants Ltd. in consideration of services rendered in matters regarding Chinese government policies and regulations; and

(g) 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.

SUMMARY DESCRIPTION OF EMPLOYEE BENEFIT PLANS

2006 Non-Qualified Stock Compensation Plan

The Company adopted a 2006 Non-Qualified Stock Compensation Plan (the "2006 Plan") on November 2, 2005, and filed a Registration Statement on Form S-8 with the SEC on November 3, 2005, to register shares awarded and shares underlying options granted under the Plan. The Compensation Committee of the Board of Directors issues common stock and awards options to employees, directors, officers, consultants, advisors and other persons associated with our Company. The 2006 Plan is intended to provide a method whereby our Company would be stimulated by the personal involvement of our employees, directors, officers, consultants, advisors and other persons in our business and reward such involvement, thereby advancing the interests of our Company and all of its shareholders. A total of 4,000,000 shares of common stock and shares of common stock underlying options were authorized under the 2006 Plan. To date, no shares have been awarded.

2005 Employee Stock Option Plan

The Company adopted a 2005 Stock Option Plan (the “2005 Plan”) on May 3, 2005, and filed a Registration Statement on Form S-8 with the SEC on May 5, 2005, to register options and shares underlying options granted under the Plan. The Board of Directors administered the 2005 Plan, and awarded options to key employees (including officers and directors), non-employee members of the Board or non-employee members of the Board of any parent or subsidiary corporations, consultants and independent contractors. The 2005 Plan was intended to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to our employees and consultants and to promote the success of our business. A total of 3,500,000 options and 3,500,000 shares of common stock underlying options were authorized under the 2005 Plan.

On October 12, 2005, the Company filed Post Effective Amendment No. 1 to the Registration Statement on Form S-8 in order to register the sale by the selling security holders named therein of 3,090,000 shares of common stock underlying options. To date, all 3,090,000 of the options and shares under the 2005 Plan have been awarded to consultants and employees.

Index

Section 16(a) Beneficial Ownership Reporting Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) requires the Company’s Officers and Directors, and persons who own more than ten percent of a registered class of the Company’s equity securities, file reports of ownership and changes in ownership with the SEC. Officers, directors, and stockholders of greater than ten percent are required by regulation to furnish to the Company copies of all Section 16 forms they file. Based solely on the Company’s review of the copies of such forms received by it and written representations fro the Company’s reporting persons, the Company believes that all of the Company’s reporting persons have filed their respective Section 16(a) forms for the year ended December 31, 2005.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Options - During 2004, 1,155,000 options were granted to five directors and officers of the Company to purchase shares at $0.30. 660,000 of the options are outstanding as of December 31, 2005.

Wages and benefits - The Company paid $30,866 as wages and benefits to a director and an officer of the Company during the year ended December 31, 2005.

Advances - As of December 31, 2005, the Company advanced $8,485 to a director for expenses to be incurred on behalf of the Company and also advanced $21,443 to a company with a director in common. The advances are non-interest bearing and without specified terms of repayment.

PRINCIPAL STOCKHOLDERS

Section 13(d) of the Exchange Act requires persons or groups who own more than 5% of a registered class of the Company’s equity securities, to file Schedules of ownership and changes in ownership of Company equity securities with the SEC. Except as otherwise noted in the footnotes to this table, the named person owns directly and exercises sole voting and investment power over the shares listed as beneficially owned by such person. Includes any securities that such person has the right to acquire within sixty days pursuant to options, warrants, conversion, privileges or other rights.

Based upon such reports as of December 31, 2005, management knows of no other persons other than those identified below who were beneficial owners of more than five percent of the outstanding shares of Common Stock. The following sets forth information with respect to ownership by holders of more than five percent (5%) of its Common Stock known by the Company based upon 21,511,792 shares outstanding at July 24, 2006, and in the event of exercise of all options for our stock.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Interest	Percent of Class
Common Stock	Xiao-qing (Angela) Du (1)(2)	1,250,000	6.25%
Common Stock	Richco Investors, Inc.(1)	1,137,999 (3)(5)	5.69%
Common Stock	Ernest Cheung(1)	1,446,333 (3)(4)(5)	7.23%
Common Stock	Maurice Tsakok (1)		6.12%

		1,225,333 (3)(5)	
Common Stock	Quicknet Partners #1859 New Century Office Tower Beijing China	2,040,000	10.19%
Common Stock	Greg Ye(1)	0	0%
Common Stock	Bryan Ellis(1)	0	0%
Total for Officers and Directors as a group (4 persons)		2,696,333	13.47%

(1) Except as otherwise noted each person's business address is c/o the Company, Ste. 900-789 West Pender Street, Vancouver BC V6C 1H2.

(2) As an officer, Ms. Du received 330,000 options in 2004 which are currently exercisable.

(3) Mr. Cheung and Mr. Tsakok are officers, directors and beneficial owners of Richco Investors Inc. For purposes of this table, the 1,137,999 shares owned by Richco are deemed owned by Mr. Cheung and Mr. Maurice Tsakok, a former director, beneficially and individually.

(4) Ernest Cheung has options to purchase 165,000 shares at $0.30 per share, all of which are currently exercisable. Ernest Cheung is President of Development Fund II of Nova Scotia, Inc. which owns 63,333 common shares included in the above table.

(5) Includes all shares of Richco Investors, Inc., Ernest Cheung, Maurice Tsakok, and Development Fund II of Nova Scotia since there is common control.

Index

SELLING STOCKHOLDERS

An aggregate of 29,214,458 shares of Common Stock may be offered for resale and sold pursuant to this prospectus by the selling shareholders. The shares are to be offered by and for the respective accounts of the selling shareholders. We have agreed to register all of the shares under the Securities Act for resale by the selling shareholders and to pay all of the expenses in connection with such registration and sale of the shares, other than underwriting discounts and selling commissions and the fees and expenses of counsel and other advisors to the selling shareholders. We will not receive any proceeds from the sale of the shares by the selling shareholders.

- An aggregate of 28,714,458 shares of our Common Stock are issuable to 37 investors in our Offering, which shares are being offered hereby for resale upon conversion of Debentures and/or exercise of warrants. An additional 4,785,843 Shares are issuable to these same investors pursuant to the May 4, 2006 Waiver/Settlement Agreement, as well as warrants to purchase 8,374,950 shares of Common Stock held by the placement agent are not included in this Registration Statement. The Offering of 134 units ("Units") was sold at $25,000 per Unit or an aggregate of $3,350,000 and net proceeds of approximately $2,866,000. Each Unit consists of $25,000 principal amount of Debentures, and Class A Warrants and Class B Warrants. The Debentures are currently convertible at $.30 per share, as adjusted, for 83,333 shares of Common Stock (of which 71,429 shares are registered hereby); mature on August 15, 2006 and accrue interest at a rate of not less than 6% per annum. Each Unit also includes: (i) Class A Warrants exercisable at $.38 per share, as adjusted, to purchase 83,333 shares of Common Stock (of which 71,429 shares are registered hereby) for two years from the Effective Date, but no later than February 15, 2008; and (ii) Class B Warrants exercisable at $.45 per share, as adjusted, to purchase 83,333 shares of Common Stock (of which 71,429 shares are registered hereby) for three years from the Effective Date, but no later than February 15, 2009. For additional information, see "Description of Securities" and "Plan of Distribution" elsewhere in this prospectus.

- 500,000 shares were issued to Yim Sheung Wai, a consultant with Lanxes Consultants Limited, upon exercise of an option pursuant to the Registration Statement on Form S-8, SEC File #333-124654, which shares are being re-registered pursuant to this prospectus.

Information with respect to the selling shareholders and the shares of our Common Stock held by them and those shares being offered for resale pursuant to this prospectus is set forth in the following table. None of the selling shareholders has had any material relationship with us within the past three years, except as noted above or in the notes to the following table.

Index

Selling Shareholder	Number of Shares Owned Prior to Sale	Number of Shares Being Offered for Sale		Amount and Nature of Beneficial Ownership After the Sale of the Shares Being Offered Percentage(1) Before	After
Alpha Capital AG (18)	3,000,000	3,000,000	(3)	13.0%	-
Robert Baron	128,574	128,574	(4)	*	-
Robert Bauers	214,287	214,287	(5)	1.1%	-
Brookshire Securities (19)	325,000	325,000	(2)	1.6%	-
Michael Capozzi	214,287	214,287	(5)	1.1%	-
Lewis G. Cole	214,287	214,287	(5)	1.1%	-
Thomas Dupont	428,574	428,574	(6)	2.1%	-
John E. and Georgianna Gimbel	214,287	214,287	(5)	1.1%	-
Andreas Gubser	214,287	214,287	(5)	1.1%	-
Michael Hamblett	7,500	7,500	(2)	*	-
Philip J. Hempleman	2,442,858	2,442,287	(7)	9.7%	-
Fiona Holland	214,287	214,287	(5)	1.1%	-
Richard N. Houlding	214,287	214,287	(5)	1.1%	-
Iroquois Master Fund LTD (20)	3,214,287	3,214,287	(8)	13.8%	-
Robert Jackson	107,145	107,145	(9)	*	-
Louis Jaffe	428,574	428,574	(6)	2.1%	-
George Jarskey	214,287	214,287	(5)	1.1%	-
Francis William Johnson	214,287	214,287	(5)	1.1%	-
Kinder Investments, L.P. (21)	1,500,000	1,500,000	(10)	7.0%	-
Michael J. Maloney	214,287	214,287	(5)	1.1%	-
Frank Mantek	214,287	214,287	(5)	1.1%	-

Management Solutions International, Inc. (22)	350,000	350,000	(2)	1.7%	-
Meridian Ventures, LLC (23)	525,000	525,000	(2)	2.6%	-
Karen Lynne Miller	214,287	214,287	(5)	1.1%	-
Dr. Gerald Millstein	107,145	107,145	(9)	*	-
Richard Molinsky	214,287	214,287	(5)	1.1%	-
Donald Mudd	1,285,716	1,285,716	(11)	6.0%	-
Nite Capital LP (24)	1,285,716	1,285,716	(11)	6.0%	-
Omicron Master Trust (25)	771,429	771,429	(12)	3.7%	-
Wayne and Bonnie Pensenstadler	642,858	642,858	(13)	3.1%	-
Norman Rothstein	171,429	171,429	(14)	*	-
The Rubin Family Irrevocable Trust (26)	428,574	428,574	(6)	2.1%	-
SCG Capital, LLC (27)	428,574	428,574	(6)	2.1%	-
Cira A. Lim, John L. Smith	214,287	214,287	(5)	1.1%	-
Southridge Partners LP (28)	4,285,716	4,285,716	(15)	17.6%	-
Anthony Spatacco	3,750	3,750	(2)	*	-
Starboard Capital Markets LLC (29)	3,750	3,750	(2)	*	-
Michael F. Stone	1,285,716	1,285,716	(11)	6.0%	-
Robert I. Strougo	107,145	107,145	(9)	*	-
Rodney E. and Donna R. Suggs	2,571,429	2,571,429	(16)	11.4%	-
Yim Sheung Wai	500,000	500,000	(30)		
Peter Wakeham	214,287	214,287	(5)	1.1%	-
David Ward	107,145	107,145	(9)	*	-
Dr. Ferdinand Weisbrod	857,145	857,145	(17)	4.1%	-
Dean Whitla	214,287	214,287	(5)	1.1%	-

* Less than 1% of the issued and outstanding shares

Index

(1) As of July 24, 2006, we had 21,511,792 shares of Common Stock issued and unless otherwise indicated, each person has sole disposition and voting power with respect to the shares indicated. For purposes of this table, a person or group of persons is: (a) deemed to have "beneficial ownership" of any shares as of a given date which such person has the right to acquire within 60 days after such date and (b) assumed to have sold all shares registered hereby in this offering. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on a given date, any security which such person or persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) These are Placement Agent Warrant Shares.

(3) These include 1,000,000 shares issuable upon conversion of the Debentures, 1,000,000 shares issuable upon exercise of the Class A Warrants and 1,000,000 shares issuable upon exercise of the Class B Warrants.

(4) These include 42,858 shares issuable upon conversion of the Debentures, 42,858 shares issuable upon exercise of the Class A Warrants and 42,858 shares issuable upon exercise of the Class B Warrants.

(5) These include 71,429 shares issuable upon conversion of the Debentures, 71,429 shares issuable upon exercise of the Class A Warrants and 71,429 shares issuable upon exercise of the Class B Warrants.

(6) These include 142,858 shares issuable upon conversion of the Debentures, 142,858 shares issuable upon exercise of the Class A Warrants and 142,858 shares issuable upon exercise of the Class B Warrants.

(7) These include 714,286 shares issuable upon conversion of the Debentures, 714,286 shares issuable upon exercise of the Class A Warrants and 714,286 shares issuable upon exercise of the Class B Warrants.

(8) These include 1,071,429 shares issuable upon conversion of the Debentures, 1,071,429 shares issuable upon exercise of the Class A Warrants and 1,071,429 shares issuable upon exercise of the Class B Warrants.

(9) These include 35,715 shares issuable upon conversion of the Debentures, 35,715 shares issuable upon exercise of the Class A Warrants and 35,715 shares issuable upon exercise of the Class B Warrants.

(10) These include 500,000 shares issuable upon conversion of the Debentures, 500,000 shares issuable upon exercise of the Class A Warrants and 500,000 shares issuable upon exercise of the Class B Warrants.

(11) These include 428,572 shares issuable upon conversion of the Debentures, 428,572 shares issuable upon exercise of the Class A Warrants and 428,572 shares issuable upon exercise of the Class B Warrants.

(12) These include 257,143 shares issuable upon conversion of the Debentures, 257,143 shares issuable upon exercise of the Class A Warrants and 257,143 shares issuable upon exercise of the Class B Warrants.

(13) These include 214,286 shares issuable upon conversion of the Debentures, 214,286 shares issuable upon exercise of the Class A Warrants and 214,286 shares issuable upon exercise of the Class B Warrants.

(14) These include 57,143 shares issuable upon conversion of the Debentures, 57,143 shares issuable upon exercise of the Class A Warrants and 57,143 shares issuable upon exercise of the Class B Warrants.

(15) These include 1,428,572 shares issuable upon conversion of the Debentures, 1,428,572 shares issuable upon exercise of the Class A Warrants and 1,428,572 shares issuable upon exercise of the Class B Warrants.

(16) These include 857,143 shares issuable upon conversion of the Debentures, 857,143 shares issuable upon exercise of the Class A Warrants and 857,143 shares issuable upon exercise of the Class B Warrants.

(17) These include 285,715 shares issuable upon conversion of the Debentures, 285,715 shares issuable upon exercise of the Class A Warrants and 285,715 shares issuable upon exercise of the Class B Warrants.

(18) Voting and disposition power with respect to the shares offered hereby for resale is held by Konrad Ackerman, Director.

(19) Voting and disposition power with respect to the shares offered hereby for resale is held by Timothy Roggiero, President.

(20) Voting and disposition power with respect to the shares offered hereby for resale is held by Joshua Silverman, Authorized Signatory.

(21) Voting and disposition power with respect to the shares offered hereby for resale is held by Dov Perlysky, Managing Member of G.P.

(22) Voting and disposition power with respect to the shares offered hereby for resale is held by Michael Sid, President.

(23) Voting and disposition power with respect to the shares offered hereby for resale is held by Shahid Khan, President.
(24) Voting and disposition power with respect to the shares offered hereby for resale is held by Keith A. Goodman, Manager of the General Partner.
(25) Voting and disposition power with respect to the shares offered hereby for resale is held by Bruce Bernstein, Managing Partner.
(26) Voting and disposition power with respect to the shares offered hereby for resale is held by Marjorie Rubin, Trustee.
(27) Voting and disposition power with respect to the shares offered hereby for resale is held by Steven Geduld.
(28) Voting and disposition power with respect to the shares offered hereby for resale is held by Henry Sargent, Portfolio Manager.
(29) Voting and disposition power with respect to the shares offered hereby for resale is held by James Dotzam, Managing Principal.
(30) On August 17, 2005, Yim Sheung Wai received an option to purchase 500,000 shares of Common Stock. The option was exercisable at $.40 per share. The option was granted in consideration of consulting services rendered in connection with assisting the Company in locating strategic business partners. Ms. Wai is not affiliated with any registered broker-dealer. The option was exercised in September 2005 and the underlying shares are being registered hereby.

Index

DESCRIPTION OF SECURITIES

General

The Company is authorized to issue 500,000,000 shares of Common Stock, par value $.001 per share. As of July 24, 2006, there were 21,511,792 shares of Common Stock issued and outstanding held by 163 shareholders of record.

Common Stock

The holders of Common Stock are entitled to one vote for each share held of record on all matters to be voted on by stockholders. Holders of shares of Common Stock are not entitled to cumulative voting rights. The favorable vote of a plurality of the votes of the shares of Common Stock is necessary to elect the directors of the Company. To take all other actions, a majority of the votes of the shares of Common Stock outstanding is necessary. The holders of Common Stock are entitled to receive ratably such dividends when, as and if declared by the Board of Directors out of funds legally available therefore. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining which are available for distribution to them after payment of liabilities and after provision has been made for each class of stock, if any, having preference over the Common Stock. Holders of Common Stock, as such, have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to the Common Stock. All of the outstanding shares of Common Stock, when issued in exchange for the consideration set forth herein, will be, validly issued, fully paid and non-assessable.

Warrants

The following discussion is subject to the terms and conditions of the Class A and Class B Warrants, copies of which are incorporated by reference hereto.

Terms. For each Unit issued in the Offering, the Company also issued Class A Warrants and Class B Warrants to purchase such number of shares of Common Stock determined by dividing the purchase price per Unit of $25,000 by the $.30 per share Conversion Price of the Debentures, as adjusted, or 83,333 shares per Unit (of which 71,429 shares are registered for resale hereby). Each Class A Warrant entitles the holder to purchase one share of Common Stock at any time after issuance at an exercise price per Class A Warrant of $.38 per share. The Class A Warrants shall expire on the second anniversary of the Effective Date of this Registration Statement, but not later than February 15, 2008 and be subject to other terms and conditions described below. Each Class B Warrant entitles the holder to purchase one share of Common Stock at any time after issuance at an exercise price of $.45 per share. The Class B Warrants shall expire on the third anniversary of the Effective Date of this Registration Statement, but not later than February 15, 2009 and be subject to other terms and conditions described below. The Class A Warrants and the Class B Warrants are sometimes collectively referred to herein as the “Warrants.” The actual number of securities underlying the Units will be determined on the Closing Date based on the Average Closing Price. The Warrants may be exercised in whole or in part, at any time and from time to time during the Exercise Period. Warrants may be exercise for cash or pursuant to a “cashless exercise” right. Unless exercised, the Warrants will automatically expire at the end of the Exercise Period, subject to earlier termination by reason of redemption.

Anti-Dilution Provisions. The Exercise Price of the Warrants shall be subject to adjustment from time to time in the event of any stock split, reverse stock split, stock dividend, distributions, recapitalization, reorganization, reclassification or similar events. In addition, if at any time prior to the expiration dates of the Warrants, 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 Exercise Price on the date of such issuance or sale (a “Dilutive Issuance”), then the Exercise Price shall be adjusted so as to equal the value of the consideration received or receivable by the Company (on a per share basis) for the additional shares of Common Stock or Common Stock Equivalents so issued.

Redemption. The Class A Warrants and Class B Warrants will be subject to redemption by the Company at $.001 per Warrant, on not less than 30 days' prior written notice to the holders of the Warrants at any time commencing 6 months and 12 months, respectively, after the Effective Date of this Registration Statement assuming the resale of the Warrant Shares has been declared effective by the SEC and is in effect prior to the date of the notice of redemption and remains in effect; provided (i) the average closing bid quotation or last sales price of the Common Stock, as applicable, has been at least 175% of the respective Exercise Prices per share for a period of 20 consecutive trading days ending not more than 15 days prior to the date on which the Company gives notice of redemption. The Warrants will be exercisable until 5:00 p.m. on the day immediately preceding the date fixed for redemption.

Index

Dividends

To date, the Company has not declared or paid any dividends on its Common Stock. The payment by the Company of dividends, if any, is within the discretion of the Board of Directors and will depend on the Company's earnings, if any, its capital requirements and financial condition, any dividend restrictions or prohibitions under outstanding loan agreements, as well as other relevant factors. The Board of Directors does not intend to declare any dividends in the foreseeable future, but instead intends to retain earnings for use in the Company's business operations.

Transfer Agent and Warrant Agent

The transfer agent for our Common Stock, and the warrant agent for the Warrants is Holladay Stock Transfer, Inc., 2939 N. 67th Place, Scottsdale, AZ 85251.

SEC Position on Indemnification

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the above provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is unenforceable.

Certain Market Information

Our Common Stock is listed on the OTCBB maintained by the NASD. There is no listing for the Debentures or the Warrants. However, there has been limited trading, to date, of our Common Stock. An OTCBB listing does not guarantee that an active trading market for our securities will develop. You will likely not be able to sell your securities if an active trading market for our securities does not develop. Further, we can give no assurance that such a market could be sustained if a trading market for our securities were to develop, nor that our securities could be resold at their original offering price or at any other price. Any market for our securities on the OTCBB will very likely be a limited one and, in all likelihood, be highly volatile. Although we intend to apply for a listing on Nasdaq or an exchange, when qualified, there is no assurance we will obtain such a listing. In any event, if our securities trade at a low price, many brokerage firms may choose not to engage in market making activities or effect transactions in our securities. Accordingly, purchasers of our securities may have difficulties in reselling them and many banks may not grant loans using our securities as collateral.

Federal regulations governing "penny stocks" could have a detrimental effect on holders of our securities. Our securities are subject to the SEC rules that impose special sales practice requirements upon broker-dealers that sell such securities to parties other than established customers or accredited investors. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of purchasers of our securities to buy or sell in any market that may develop. In addition, the SEC has adopted a number of rules to regulate "penny stocks." Because our securities currently constitute a "penny stock" within the meaning of these rules, the rules would apply to us and our securities. The rules may further affect the ability of owners of our securities to sell their securities in any market that may develop for them.

Equity Compensation Plan Information

See "Executive Compensation - 2006 Non-Qualified Stock Compensation Plan and 2005 Stock Option Plan" described above.

PLAN OF DISTRIBUTION

The shares being offered for resale pursuant to this prospectus may be sold by the selling shareholders for their respective accounts. The selling shareholders will pay or assume brokerage commissions or other charges and expenses incurred in the sale of the shares. The distribution of the shares by the selling shareholders is not subject to any underwriting or other agreement. Each selling shareholder must use a broker-dealer which is registered in the state in which the selling shareholder seeks to sell their shares.

The shares may be sold or transferred for value by the selling shareholders, in one or more transactions, on the OTCBB, in privately negotiated transactions or in a combination of such methods. The shares may be sold or transferred at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices otherwise negotiated. The selling shareholders may effect such transactions by selling or transferring the shares to or through brokers and/or dealers, and such brokers or dealers may receive compensation in the form of underwriting discounts, concessions or commissions from the selling shareholders and/or the purchasers/transferees of the shares for whom such brokers or dealers may act as agent. Such broker or dealer compensation may be less than or in excess of customary commissions. However, the maximum compensation to be received by any NASD member or independent broker dealer will not be greater than eight (8%) percent of the gross proceeds of any sale. The selling shareholders and any broker or dealer that participate in the distribution of the shares may be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act, and any commissions received by them and any profit on the resale of the shares sold by them may be deemed to be underwriting discounts and commissions under the Securities Act and under the NASD Corporate Financing Rules.

Index

Upon our being notified by a selling shareholder that any material arrangement has been entered into with a broker or dealer for the sale of shares through a secondary distribution, or a purchase by a broker or dealer, a supplemental prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing:

- the name of each of such selling shareholder and the participating brokers and/or dealers,
- the number of shares involved,
- the price at which such shares are being sold,
- the commissions paid or the discounts or concessions allowed to such brokers and/or dealers,
- where applicable, that such brokers and/or dealers did not conduct any investigation to verify the information set out or incorporated by reference in the prospectus, as supplemented, and
- other facts material to the transaction.

Any of the shares of our common stock being offered for sale pursuant to this prospectus that qualify for sale pursuant to Rule 144 promulgated under the Securities Act may be sold under Rule 144 rather than pursuant to this prospectus.

Other than as selling stockholders, Brookshire Securities and Starboard Capital Markets, NASD member firms, will not participate under this resale prospectus and distribution. Their placement agent warrants and warrant shares may be deemed to be items of value under the NASD Corporate Financing Rules and subject to an 180 day lock-up under certain circumstances.

There can be no assurance that the selling shareholders will sell or transfer any of the Shares being offered pursuant to this prospectus.

EXPERTS

Our consolidated financial statements as of December 31, 2005 and for the two years then ended, have been included in this prospectus and in the Registration Statement upon the report of Moen and Company, Canadian Chartered Accountants, on their audit of our financial statements given on the authority of this firm as an expert in accounting and auditing.

LEGAL MATTERS

The validity of the shares of Common Stock offered in this Offering will be passed upon by Phillips Nizer LLP, 666 Fifth Avenue, New York, NY 10103-0084.

PROSPECTIVE INVESTORS MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE PROSPECTIVE INVESTORS WITH DIFFERENT OR ADDITIONAL INFORMATION. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY IN ANY JURISDICTION WHERE SUCH OFFER, OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THESE SHARES.

-40-

Index

CHINA MOBILITY SOLUTIONS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Index

FINANCIAL STATEMENTS

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Stated in U.S. dollars		March 31, 2006		December 31, 2005
		(Unaudited)		(Audited)
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	5,741,569	$	6,138,609
Accounts receivable		6,835		5,870
Prepaid Expenses and Other Current Assets		113,131		235,165
Amount due from related parties		45,721		33,249
Total Current Assets		5,907,256		6,412,893
Investment		1		1
Property and Equipment, Net (Note 2)		5,646		6,248
Goodwill		4,802,520		4,802,520
Other assets		692		701
Total Assets	$	10,716,115	$	11,222,363
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable and Other Accrued Liabilities	$	336,735	$	362,013
Deferred Revenue		2,626,886		3,053,282
Convertible Debentures (Note 3)		3,350,000		3,350,000
Total Current Liabilities		6,313,621		6,765,295
Stockholders' Equity				
Common Stock : $0.001 Par Value				
Authorized : 500,000,000 common shares				
Issued and Outstanding : 20,011,792 shares (2005: 20,011,792 shares)		20,012		20,012
Additional Paid In Capital		18,442,826		18,442,826
Accumulated Deficit		(13,862,008)		(13,804,409)
Accumulated Other Comprehensive Loss		(198,336)		(201,361)
Total Stockholders' Equity		4,402,494		4,457,068

Total Liabilities and Stockholders' Equity	$	10,716,115	$	11,222,363

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

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
Stated in U.S. dollars	**March 31, 2006**	**March 31, 2005**
Revenue		
Mobile marketing services	$ 1,440,917	$ 1,052,529
Tuition fee	19,027	74,678
	1,459,944	1,127,207
Cost of revenue		
Mobile marketing services	291,833	223,545
Tuition fee	4,632	10,439
	296,465	233,984
Gross profit	1,163,479	893,223
Expenses		
Advertising and promotion	199,171	141,320
Consulting and professional	89,979	16,156
Depreciation	611	592
Foreign exchange loss (gain)	(1,310)	3,578
General and administrative	36,274	24,317
Interest expense	54,312	-
Investor relations	87,825	-
Liquidated damages	201,000	-
Rent	235,913	158,615
Salaries, wages and sub-contract	341,861	300,583
Website development	-	80,000
	1,245,636	725,161
Operating Income (Loss)	(82,157)	168,062
Other Income		
Interest income	24,558	17,242
Other income	-	1,984
	24,558	19,226
Income (loss) before minority interest	(57,599)	187,288
Minority interest	-	(126,547)
Net Income (Loss) Available to Common Stockholders	$ (57,599)	$60,741
Earnings (loss) per share attributable to common		

stockholders:		
Basic and diluted	(0.00)	$0.00
Weighted average number of common shares outstanding:		
Basic and diluted	20,011,792	16,024,670

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

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the three month period ended March 31, 2006 and year ended December 31, 2005
(Unaudited)

Stated in U.S. dollars	Common Shares	Stock Amount At Par Value	Additional Paid In Capital	Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2004	15,826,792	$ 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
Issuance of common stock for cash on exercise of stock options on September 1, 2005 @$0.40	500,000	500	199,500				200,000
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 new Series 'A' warrants issued			3,254,305				3,254,305

Fair value of new Series 'B' warrants issued			3,637,165				3,637,165
Intrinsic value of the conversion feature of the convertible debenture			1,052,863				1,052,863
Net income (loss) for the year ended December 31, 2005				(9,163,453)	(9,163,453)		(9,163,453)
Foreign currency translation adjustments					(17,829)	(17,829)	(17,829)
Total comprehensive income (loss)					$ (9,181,282)		
Balance, December 31, 2005	20,011,792	$ 20,012	$18,442,826	$ (13,804,409)		$ (201,361)	$4,457,068
Net income (loss) for the three months ended March 31, 2006				(57,599)	(57,599)		(57,599)
Foreign currency translation adjustments					3,025	$3,025	3,025
Total comprehensive income (loss)					$(54,574)		
Balance, March 31, 2006	20,011,792	$20,012	$18,442,826	$ (13,862,008)		$(198,336)	$4,402,494

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

F 3

Index

CHINA MOBILITY SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
Stated in U.S. dollars	**March 31, 2006**	**March 31, 2005**
Cash flows from operating activities		
Net income (loss)	$(57,599)	$60,741
Adjustments to reconcile net loss to net cash		
Provided by (Used in) operating activities		
Depreciation and amortization	611	592
Interest expenses on intrinsic value of the convertible debenture		
Translation adjustments	3,025	2,045
Minority interest	-	126,547
Changes in assets and liabilities		
(Increase)Decrease in accounts receivable	(965)	5,336
(Increase)Decrease in prepaid expenses and other current assets	122,034	8,451
Increase in amount due from (to) related parties	(12,472)	(29,202)
Decrease in accounts payable	(25,278)	59,522
Increase in deferred revenue	(426,396)	(95,419)
Net cash provided by (used in) operating activities	(397,040)	138,613
Cash flows from financing activities		
Issuance of common stock for cash	-	148,500
Net cash flows provided by financing activities	-	148,500
Increase (Decrease) in cash and cash equivalents	(397,040)	287,113
Cash and cash equivalents - beginning of period	6,138,609	5,380,622
Cash and cash equivalents - end of period	$5,741,569	$5,667,735
Supplemental Information :		
Cash paid for :		
Interest	$53,600	$1
Income taxes	-	-

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

Index

CHINA MOBILITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006
(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, 2005 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. Property and Equipment

	March 31, 2006	December 31, 2005
Equipment	$ 26,986	$ 26,986
Library	9,554	9,554
Furniture	10,189	10,189
Total	46,729	46,729
Less : Accumulated depreciation	(41,083)	(40,481)
Net book figures	$ 5,646	$ 6,248

The depreciation expense charged to continuing operations for the three-month period ended March 31, 2006 was $611 (2005: $592).

Index

3. 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 new Series “A” Warrant and one new Series “B” 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) new Series “A” 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) new Series “B” 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 new Series “A” and new Series “B” 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.

On January 18, 2006, the Company received a letter (the “Default Notice”) from the attorney for Southridge Partners, LP, (the “Lender”) the holder of $500,000 principal amount of the Company's Senior Convertible Debentures (the “Debenture”) stating that the Company was in default of certain transaction agreements (the “Transaction Agreements”) issued in connection with the Debenture by virtue of the Company's issuance of registered shares of stock to employees and consultants under a Form S-8 registration statement and the filing of the Form S-8 prior to the date of effectiveness (the “Effective Date”) of the Company’s SB-2 Registration Statement required under the Registration Rights Agreement (one of the Transaction Agreements).

The Debenture was issued on August 15, 2005, as part of a $3,350,000 offering of units. Under the original terms of the Debenture, each unit included $25,000 principal amount of Debentures, initially convertible at $.35 per share, matured on August 15, 2006 and accrued interest at not less than 6% per annum equal to the sum of 2% per annum plus the one month LIBOR rate. Each unit also included Class A Warrants exercisable at $.44 per share and Class B Warrants exercisable at $.52 per share.

The Company denied that it was in default of the Transaction Agreements; however, in order to avoid costly litigation, the parties entered into a waiver/settlement agreement as of May 4, 2006 (the “Waiver/Settlement Agreement”).

In accordance with the terms of the Waiver/Settlement Agreement, the initial conversion price of the Debenture was reduced from $.35 per share to $.30 per share, the Class A Warrant exercise price was reduced from $.44 to $.38 per share and the Class B Warrant exercise price was reduced from $.52 to $.45 per share. In addition, the number of shares of the Company's common stock exercisable upon conversion of each $25,000 principal amount of Debenture and upon exercise of the Class A and Class B Warrants included in each Unit was increased from 71,429 shares to 83,333 shares for each of the Debenture, Class A Warrants and Class B Warrants, or an aggregate of 250,000 shares per unit.

The Lender waived the S-8 Default set forth in the Default Notice and the Company agreed not to file any additional S-8 Registration Statements prior to 45 days after the Effective Date of the Registration Statement.

The Company has recorded $201,600 as expense for estimated liquidated damages in the statement of operations for the quarter ended March 31, 2006.

As of March 31, 2006, interest payable of $27,512 has been recorded as part of the accounts payable.

Index

4. 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 periods ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	2005
Net income (loss) for the period	(57,599)	60,741
Weighted-average number of shares outstanding	20,011,792	16,024,670
Effective of dilutive securities :		
Dilutive options - $0.30	-	-
Dilutive warrants new Series "A" - $0.44	-	-
Dilutive warrants new Series "B" - $0.52	-	-
Dilutive potential common shares	-	-
Adjusted weighted-average shares and assumed conversions	20,011,792	16,024,670
Basic income (loss) per share attributable to common shareholders	$ (0.00)	$ 0.00
Diluted income (loss) per share attributable to common shareholders	$ (0.00)	$ 0.00

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

Index

5. Share Purchase Warrants

During the quarter ended March 31, 2006, 10 Series “B” warrants which entitle the holders to purchase a common share of the Company at $2.25 each expired on March 31, 2006.

As of March 31, 2006, 134 new Series “A” 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 new Series “B” 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.

6. Stock Options

The Company filed a Form S-8 Registration Statement for its 2006 non-qualified Stock Option Plan” with Securities Exchange Commission on November 3, 2005. The total number of shares of the Company available for grants of stock options and common stock under the Plan shall be 4,000,000 common shares. Stock options may be granted to non-employees and directors of the Company or other persons who are performing or who have been engaged to perform services of special importance to the management, operation or development of the Company. All stock options granted hereunder must be granted within ten years from the earlier of the date of this Plan is adopted or approved by the Company’s shareholders. No stock option granted to any employee or 10% shareholder shall be exercisable after the expiration of ten years from the date such non qualifying stock option (“NQSO”) is granted. The Company, in its discretion, may provide that an Option shall be exercisable during such ten year period or during any lesser period of time, through the delivery of fully paid and non-assessable common shares, with an aggregate fair market value on the date the NQSO is exercised equal to the option price, provided such tendered shares have been owned by the Optionee for at least one year prior to such exercise.

Options outstanding at March 31, 2006 were 660,000 with an option price of $0.30 each. No options were granted, exercised, canceled or forfeited during the quarter ended March 31, 2006. The weighted average remaining contractual life is 1.31 years.

Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. The intrinsic value method of accounting resulted in compensation expense for stock options to the extent that the exercise prices were set below the fair market price of the Company’s stock at the date of grant.

As of January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company’s valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, “Accounting for Stock Based Compensation”, as amended by SFAS No. 148, “Accounting for Stock Based Compensation Transition and Disclosure”.

Since the Company did not issue stock options to employees during the three months ended March 31, 2006 or 2005, there is no effect on net loss or earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation. When the Company issues shares of common stock to employees and others, the shares of common stock are valued based on the market price at the date the shares of common stock are approved for issuance.

Index

7. Related Party Transactions

During the three-month period ended March 31, 2006, the Company paid $14,475, as compared with $5,296 during the comparable period in 2005, to a director and an officer as wages and benefits.

As of March 31, 2006, the Company had an amount of $21,421, as compared with $21,443 as of December 31, 2005, due from a company with a common director without interest or specific terms of repayment.

As of March 31, 2006, the Company advanced $9,730, as compared with $8,485 as of December 31, 2005, to a director of the Company for expenses to be incurred on behalf of the Company.

8. New Accounting Pronouncements

There have been no new pronouncements issued since March 31, 2005, that are expected to have a material impact on the Company's financial statements.

9. 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 March 31, 2006				
Revenue from continuing operations	$ 1,440,917	$ 19,027	$ -	$ 1,459,944
Operating income (loss)	387,730	(39,158)	(430,729)	(82,157)
Total assets	3,257,230	298,983	7,159,902	10,716,115
Depreciation	-	611	-	611
Interest income	6,303	397	17,858	24,558
Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	1
Three months ended March 31, 2005				
Revenue from continuing operations	$ 1,052,529	$ 74,678	$ -	$ 1,127,207
Operating income (loss)	257,183	7,212	(96,333)	168,062
Total assets	6,589,865	112,381	46,720	6,748,966
Depreciation	-	584	8	592
Interest income	17,238	4	-	17,242

Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	1

Index

B. By operating segments	Mobile communications	ESL education	Other	Total
For the three months ended March 31, 2006				
Revenue from external customers	$ 1,440,917	$ 19,027	$ -	$ 1,459,944
Intersegment revenue	-	-	-	-
Interest revenue	6,303	397	17,858	24,558
Interest expense	-	-	54,312	54,312
Depreciation	-	436	175	611
Segment operation profit (loss)	387,730	(12,385)	(457,502)	(82,157)
Segment assets	3,257,230	78,739	7,380,146	10,716,115
For the three months ended March 31, 2005				
Revenue from external customers	$ 1,052,529	$ 74,678	$ -	$ 1,127,207
Intersegment revenue	-	-	-	-
Interest revenue	-	4	17,238	17,242
Interest expense	-	-	1	1
Depreciation	-	542	50	592
Segment operation profit (loss)	258,260	28,235	(118,433)	168,062
Segment assets	2,303,522	99,819	4,345,625	6,748,966

Index

MOEN AND COMPANY LLP
CHARTERED ACCOUNTANTS

Member:
Canadian Institute of Chartered Accountants
Institute of Chartered Accountants of British Columbia
Institute of Management Accountants (USA) (From 1965)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
China Mobility Solutions, Inc.

We have audited the accompanying consolidated balance sheets of China Mobility Solutions, Inc. as of December 31, 2005 and December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Mobility Solutions, Inc. as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

"Moen and Company LLP"
("Signed")
Chartered Accountants

Vancouver, British Columbia, Canada
March 31, 2006

Index

CHINA MOBILITY SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

Stated in U.S. dollars		**2005**		**2004**
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	6,138,609	$	5,380,622
Accounts receivable		5,870		34,560
Prepaid Expenses		235,165		33,070
Amount due from related parties		33,249		18,322
Total Current Assets		6,412,893		5,466,574
Investment		1		1
Property and Equipment, Net (Note 4)		6,248		6,549
Goodwill		4,802,520		973,906
Other assets		701		-
Total Assets	$	11,222,363	$	6,447,030
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$	260,326	$	340,824
Accrued Liabilities		101,687		-
Deferred Revenue		3,053,282		2,111,698
Convertible Debentures (Note 5)		3,350,000		-
Total Current Liabilities		6,765,295		2,452,522
Minority Interest		-		32,791
Stockholders' Equity				
Common Stock : $0.001 Par Value				
Authorized : 500,000,000 common shares				
Issued and Outstanding : 20,011,792 shares				
(2004: 15,826,792 shares)		20,012		15,827
Additional Paid In Capital		18,442,826		8,770,378
Retained Earnings (Deficit)		(13,804,409)		(4,640,956)
Accumulated Other Comprehensive Loss		(201,361)		(183,532)
Total Stockholders' Equity		4,457,068		3,961,717
Total Liabilities and Stockholders' Equity	$	11,222,363	$	6,447,030

The accompanying notes are an integral part of the consolidated financial statements

Index

CHINA MOBILITY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2005 AND 2004

Stated in U.S. dollars	**2005**	**2004**
Revenue		
Mobile marketing services	$ 4,703,348	$ 1,871,960
Tuition fees	199,280	298,806
	4,902,628	2,170,766
Cost of revenue		
Mobile marketing services	1,372,707	412,222
Tuition fee	54,584	61,013
	1,427,291	473,235
Gross profit	3,475,337	1,697,531
Expenses		
Advertising and promotion	953,720	541,142
Commissions	376,146	-
Consulting and professional	339,128	116,784
Depreciation	2,705	2,071
Fair value of warrants issued	6,891,486	-
Foreign exchange gain	(109,880)	(24,029)
General and administrative	309,513	110,116
Impairment of marketable securities	-	172,250
Investor relations	263,475	-
Liquidated damages (Note 12)	33,500	-
Rent	797,509	296,920
Salaries, wages and sub-contract	1,391,221	724,493
Management fees - stock-based compensation	126,000	-
Website development	80,000	-
	11,454,523	1,939,747
Operating Loss	(7,979,186)	(242,216)
Other Income and Expenses		
Interest income	84,932	82,602
Interest expense on convertible debentures	(77,887)	-
Interest expense - intrinsic value of the conversion feature of debenture (Note 9)	(1,052,863)	-
Other income	20	10,272
Equity loss	-	(81,273)
	(1,045,798)	11,601
Loss before minority interest and discontinued operations	(9,024,984)	(230,615)
Minority interest	(138,469)	(28,157)
Loss from Continuing Operations	(9,163,453)	(258,772)
Discontinued operations		
Gain on disposal of internet-related operations	-	3,319,098
Loss on disposal of business press operations	-	(41,292)
Loss from discontinued operations	-	(362)

-				3,277,444
Net Income (Loss) Available to Common Stockholders	$	(9,163,453)	$	3,018,672
Earnings (loss) per share attributable to common stockholders:				
Earnings (loss) from continuing operations	$	(0.52)	$	(0.02)
Earnings (loss) from discontinued operations		0.00		0.22
Total basic and diluted	$	(0.52)	$	0.20
Weighted average number of common shares outstanding:				
Basic and diluted		17,633,162		14,856,834

The accompanying notes are an integral part of the consolidated financial statements

Index

CHINA MOBILITY SOLUTIONS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2005 and 2004

Stated in U.S. dollars	Common Shares	Number of Common Shares (Retroactively Stated)	Stock Amount At Par Value	Additional Paid In Capital	Accumulated Retained Earnings (Deficit)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2003	41,360,010	13,786,792	$ 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	2,040,000	6,120	544,680				550,800
Reverse stock split 3:1 on June 24, 2004	(31,653,218)		(31,653)	31,653				-
Net income for the year ended December 31, 2004					3,018,672	3,018,672		3,018,672
Foreign currency translation adjustments						(19,769)	(19,769)	(19,769)
Total comprehensive income						$ 2,998,903		
Balance, December 31, 2004	15,826,792	15,826,792	$ 15,827	$ 8,770,378	$ (4,640,956)		$ (183,532)	$ 3,961,717
Issuance of common stock for cash on	495,000		495	148,005				148,500

exercise of stock options on February 24, 2005 @$0.30						
Issuance of common stock for services rendered	600,000	600	350,700			351,300
Issuance of common stock for cash on exercise of stock options on September 1, 2005 @$0.40	500,000	500	199,500			200,000
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 conversion feature of the convertible debenture			1,052,863			1,052,863
Net loss for the year ended December 31, 2005				(9,163,453)	(9,163,453)	(9,163,453)

Foreign currency translation adjustments					(17,829)	(17,829)	(17,829)
Total comprehensive income (loss)					$ (9,181,282)		
Balance, December 31, 2005	20,011,792	$ 20,012	$ 18,442,826	$ (13,804,409)		$ (201,361)	$ 4,457,068

The accompanying notes are an integral part of the consolidated financial statements

Index

CHINA MOBILITY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 AND 2004

Stated in U.S. dollars	2005	2004
Cash flows from operating activities		
Net income (loss)	$ (9,163,453)	$ 3,018,672
Less: loss from discontinued operations	-	362
Adjustments to reconcile net loss to net cash		
Provided by (Used in) operating activities		
Depreciation and amortization	2,705	2,071
Stock-based compensation	126,000	-
Fair value of warrants issued	6,891,486	-
Interest expenses on intrinsic value of the convertible debenture	1,052,863	-
Translation adjustments	(17,829)	(19,769)
Minority interest	138,469	28,157
Impairment of marketable securities	-	172,250
Gain on disposal of Internet-related operations	-	(3,319,098)
Loss on disposal of business press operations	-	41,292
Non-cash - share issued for consulting fees, less prepaid	279,475	-
Equity loss	-	81,273
Changes in assets and liabilities		
Decrease in accounts receivable	28,690	57,107
(Increase)Decrease in prepaid expenses and other current assets	(115,007)	9,174
Increase in amount due from related parties	(14,927)	(18,322)
Increase (Decrease) in accounts payable and accrued liabilities	5,189	(75,848)
Increase in deferred revenue	941,584	468,649
Net cash provided by (used in) operating activities	155,245	445,970
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	(2,368)	-
Net cash from sale of assets	-	152,381
Net cash provided by discontinued operations	-	631
Net cash flows provided by (used in) investing activities	(4,002,368)	1,630,367
Cash flows from financing activities		
Issuance of common stock for cash	1,255,000	-
Issuance of convertible debentures for cash	3,350,000	-
Net cash flows provided by financing activities	4,605,000	-

Effect of exchange rate changes on cash		110		694
Increase in cash and cash equivalents		757,987		2,077,031
Cash and cash equivalents - beginning of year		5,380,622		3,303,591
Cash and cash equivalents - end of year	$	6,138,609	$	5,380,622
Supplemental Information :				
Cash paid for :				
Interest on debentures	$	51,087	$	69
Income taxes		-		-
Non-cash investment :				
Issuance of 6,120,000 common shares for the acquisition of Quicknet	$	-	$	550,800
Issuance of 600,000 common shares for services rendered		351,300		-

The accompanying notes are an integral part of the consolidated financial statements

Index

CHINA MOBILITY SOLUTIONS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Stated in U.S. dollars)

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

China Mobility Solutions, Inc. ("the Company"), previously known as Xin Net Corp., was incorporated under the laws of the State of Florida on September 12, 1996, with an authorized capital of 50,000,000 shares of $0.001 par value common stock. The Company's principal business activities include providing mobile/wireless communication; in particular, Short Message Services ("SMS") and education and training courses for foreign students.

Prior to June 2003, the Company commenced providing internet-related services, including domain name registration, web hosting and other value-added services, such as e-commerce and advertising in several major cities in the Peoples Republic of China ("PRC"). Due to the lack of funding and high competition in the market, the Company completed the sale of its internet-related services in the PRC in 2004.

Summary of Significant Accounting Policies

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as outlined in Notes 2 and 3. All significant inter-company transactions and balances have been eliminated on consolidation.

Accounting method - The Company's financial statements are prepared using the accrual method of accounting.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk - The Company maintains Renminbi cash balances in banks in the People's Republic of China and U.S. Dollar cash balances in Canadian and Hong Kong banks, that are not insured. Revenues were derived in geographic locations outside the United States. The ELSA program of Windsor accounts for 40% of the total tuition fees and 4% of the total revenue of the Company. The SMS of Quicknet accounts for 96% of the total revenue of the Company.

Cash and cash equivalents - Cash equivalents consists of term deposits with original maturities of three months or less.

Investments - The Company determines the appropriate classification of marketable debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. All marketable debt securities are classified as held-to-maturity and are carried at amortized cost, which approximates fair value. Investments are written down by a charge to operations for any impairment in value.

Accounts receivable and allowance for doubtful accounts - Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. The Company is required to estimate the collectibility of its receivables. Reserves for returns are based on historical return rates and sales patterns. Allowances for doubtful accounts are established through the evaluation of accounts receivable agings and prior collection experience to estimate the ultimate realization of these receivables.

Property and equipment - Property and equipment, stated at cost, is depreciated using the declining balance method as follows:

Furniture & fixture	20%	Declining balance method
Machinery & equipment	20%	Declining balance method
Computer equipment	30%	Declining balance method
Library	100	Declining balance method

Goodwill - Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill acquired has to be evaluated for impairment on an annual basis going forward according to Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets". The standard requires a two-step process to be performed to analyze whether or not goodwill has been impaired. Step one requires that the fair value be compared to book value. If the fair value is higher than the book value, no impairment is indicated and there is no need to perform the second step of the process. If the fair value is lower than the book value, step two must be evaluated. Step two requires a hypothetical purchase price allocation analysis to be done to reflect a current book value of goodwill. The current value is then compared to the carrying value of goodwill. If the current fair value is lower than the carrying value, an impairment must be recorded. Annually, the goodwill is tested for impairment in the fourth quarter.

Index

Long-lived assets - The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Revenue recognition - The Company's revenues for 2005 consisted of revenues from SMS, education and training services. In accordance with Securities and Exchange Commission, or S.E.C., Staff Accounting Bulletin No. 104, "Revenue Recognition" and the Emerging Issue Task Force, or EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliveries" the Company recognizes revenue when the following criteria are met: persuasive evidence that an arrangement exists; delivery has occurred or services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. If all of the above criteria have been met, revenues are principally recognized upon shipment of products or when services have been rendered. Revenues derived from SMS, education and training are recognized as the services are performed. Amounts received from customers in advance of the period in which service is rendered are deferred and recorded on the balance sheet as a liability under "deferred revenue."

Cost recognition - Cost of service includes direct costs to produce products and provide services.

Deferred revenue and deferred cost - Deferred revenue for 2005 consists primarily of SMS, education and training revenue received prior to the period in which service is rendered.

Capitalized software costs - The Company accounts for the development cost of software intended for sale in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "*Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed*." SFAS No. 86 requires product development costs to be charged to expense as incurred until technological feasibility is attained. Technological feasibility is attained when the Company's software has completed system testing and has been determined viable for its intended use. Accordingly, the Company did not capitalize any development costs during the period.

Advertising costs - Advertising costs are expensed as incurred. These expenses include production, media and other promotional and sponsorship costs. Total advertising costs charged to operations amounted to $953,720 for 2005 and $541,142 for 2004. Total advertising costs included in discontinued operations amounted to $nil for 2005 and $2,193 for 2004.

Income taxes - The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce deferred income tax assets to the amount expected to be realized.

Foreign currency translations - The assets and liabilities of the Company's foreign operations are generally translated into U.S. dollars at current exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting foreign currency translation adjustments are reflected as a separate component of stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of an identifiable foreign currency commitment or as a hedge of a foreign currency investment position, are included in the results of operations as incurred.

Fair value of financial instruments - For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable and current liabilities, the carrying amounts approximate fair value due to their short maturities.

Business segment information - The Company discloses information about its reportable segments in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” The Company’s reportable segments are geographic areas. The accounting policies of the operating segments are the same as those for the Company.

Earnings per share - Basic earnings or loss per share are based on the weighted average number of common shares outstanding. Diluted earnings or loss per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. Basic earnings/loss per share is computed by dividing income/loss (numerator) applicable to common stockholders by the weighted average number of common shares outstanding (denominator) for the period. All earnings or loss per share amounts in the financial statements are basic earnings or loss per share, as defined by SFAS No. 128, “Earnings Per Share.” Diluted earnings or loss per share does not differ materially from basic earnings or loss per share for all periods presented. Convertible securities that could potentially dilute basic earnings per share in the future such as options and warrants are not included in the computation of diluted earnings per share because to do so would be antidilutive. All per share and per share information are adjusted retroactively to reflect stock splits and changes in par value.

Index

Stock-based compensation - The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No.123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to remain on its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, amending FASB No. 123, and "Accounting for Stock-Based Compensation". This statement amends Statement No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. The Company adopts the disclosure provisions and the amendment to APB No. 28 effective for interim periods beginning after December 15, 2002.

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 December 31:

	Year Ended December 31	
	2005	2004
Net income (loss)		
As reported	$ (9,163,453)	$ 3,018,672
Stock-based employee compensation cost, net of tax	(301,600)	(267,300)
Pro-forma	$ (9,465,053)	$ 2,751,372
Loss per share		
As reported	$ (0.52)	$ 0.20
Pro-forma	$ (0.54)	$ 0.19

The fair values of the options granted in 2005 were from $0.13 to $0.14 each, which were estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2005	2004
Risk free interest rate	2.78%	3.65%
Expected life of options in years	1 year	1 to 3 years
Expected volatility	132%	184%
Dividend per share	$0.00	$0.00

Asset Retirement Obligations - Statement of Financial Accounting Standards No. 143 (FAS-143), Accounting for Asset Retirement Obligations, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. It requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is recorded, the entity capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

FAS-143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of a long-lived asset, except for certain obligations of leases.

Index

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.

Pursuant to paragraph 12 of SFAS 133, the convertible debenture contains a conversion option, an anti-dilution provision and a redemption provision that may be considered as embedded derivative instruments as they may affect some of the cash flows required by the contract in a manner similar to a derivative instrument.

The host contract itself does not embody a claim to the residual interest in the Company and, thus, the economic characteristics and risks of the host contract should be considered that of a debt instrument (paragraph 60 of SFAS 133) and classified under liability section of the balance sheet (paragraph 16 of SFAS 133).

The conversion option of the debenture allows the holder to convert the debt into equity shares at any time within a specified period at a specified conversion price. The conversion option is equivalent to a call option granted by the Company to the debenture holders to purchase the shares of the Company at a specified price within a specified time. The conversion option should not be separated from the host contract according to paragraph 61(k) of SFAS 133 as a separate option with the same terms would not be considered to be a derivative for the issuer. Embedded beneficial conversion features should be recognized and measured according to EITF 98-5.

Section 8 ("Adjustments to Conversion Price") of the convertible debenture agreement is an anti-dilution provision that may result in the conversion ratio not being fixed. However, section 8 of the convertible debenture agreement is purely for the purpose of protecting the interest of the debenture holders against potential actions taken by Company resulting in the dilution of their equity interest in the Company when they convert their debentures into equity shares within the specified period of time. The anti-dilution provision is in the nature of an embedded derivative indexed to the Company's own stock and would be classified in the shareholders' equity if it was a freestanding derivative, this provision is not considered a derivative for the purpose of SFAS 133 (paragraph 3 of EITF 05-2).

The redemption provision allows the Company to redeem the debentures at 125% of the principal amount plus accrued interest after six months of the effective date of the registration statement. The redemption option can be viewed as a call option available to the Company. Through the four steps analysis outlined in DIG B-16, the redemption provision of the debenture is considered to be clearly and closely related to the economic characteristics and risks of the debt host contract as the amount to be paid upon settlement is not based on changes in an index or the repayment of the contractual amount is not contingently exercisable (paragraph 61(d) of SFAS 133). The redemption provision thus should not be separated from the host contract for separate consideration.

The warrants are detached from the convertible debenture with no put option feature. There is no liquidated damage or cash penalty payable to the warrant holder if the Company cannot register the shares underlying the warrants. If an effective registration statement is not available for the resale of warrant shares, the warrant holders can still exercise the warrants to get the unregistered shares at a lower exercise price calculated. As the registration of the shares underlying the warrants is out of the control of the Company, the warrant contracts should be classified as a permanent equity instrument according to paragraph 14 of EITF 00-19.The provision should not be regarded as a derivative instrument as it is in the nature of indexed to the Company's own stock and classified under the shareholders' equity on the balance sheet (paragraph 11 of SFAS 133). (See Note 9-Common Stock, Stock Options and Warrants)

Index

Comprehensive income - The Company has adopted SFAS No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The Company includes items of other comprehensive loss by their nature, such as foreign currency translation adjustments, in a financial statement and displays the accumulated balance of other comprehensive loss separately from accumulated deficit in the equity section of the balance sheet. The Company discloses total comprehensive loss, its components and accumulated balances on its statement of stockholders' equity.

Capital structure - The Company discloses its capital structure in accordance with SFAS No. 129, "Disclosure of Information about Capital Structure," which established standards for disclosing information about an entity's capital structure.

Related party transactions - A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by, or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. (See Note 12)

Reclassification of Prior Period - Certain prior period amounts have been reclassified in order to conform to the current year presentation. These changes had no effect on previously reported results of operations or total stockholders' equity.

Recent Accounting Pronouncements - The Financial Accounting Standards issued the following pronouncements during 2004, none of which is expected to have a significant effect on the financial statements:

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections". SFAS No. 154 replaces APB Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The adoption of SFAS No. 154 will not have any impact on the Company's consolidated financial statements.

NOTE 2 - SUBSIDIARIES

The Company's wholly owned subsidiaries are as follows:

(1) Infornet Investment Limited (a Hong Kong corporation) ("Infornet HK") is a telecommunication and management network company providing financial resources and expertise in telecommunication projects. This subsidiary was originally incorporated as Micro Express Limited and was acquired at no cost. The name was changed to Infornet Investment Limited on July 18, 1997.

(2) Infornet Investment Corp., (a Canadian corporation) ("Infornet Canada") is engaged in a similar line of business as that of the Company. The Company issued 5,000,000 shares of common stock to acquire this subsidiary for a total value of $65, the latter representing organizational costs and filing fees.

(3) Xinbiz (HK) Limited (a Hong Kong corporation) ("Xinbiz Ltd.") and Xinbiz Corp. (a British Virgin Islands corporation) ("Xinbiz Corp."). Both subsidiaries were inactive during 2005 and 2004.

(4) Windsor Education Academy Inc., (a Canadian Corporation) (“Windsor”) is engaged in providing English as a secondary language (“ESL”) training program to foreign students.

Index

NOTE 3 - ACQUISITION OF 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 use 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 (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 whereby the Company purchased a 1% interest from each of the two unaffiliated shareholders of Quicknet, namely, 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 direct ownership of 49% equity interest and indirect ownership of 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.

Quicknet’s financial information is incorporated into the consolidation of the Company effective June 30, 2004, as the transactions that occurred between the period from June 23, 2004 to June 30, 2004 were immaterial.

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

Cash and short term investments	$ 1,477,355
Accounts receivables	90,560
Prepaid expenses	10,998
Fixed assets, net	14,930
Goodwill	846,782
Accounts payables and accrued liabilities	(275,130)
Unearned revenue	(1,614,695)
Fair value of consideration issued - 2,040,000 common shares @ $0.27 per share	$ 550,800

Index

The following pro forma information is based on the assumption that the acquisition took place as of beginning of the period (January 1, 2004), with comparative information for the immediately preceding period as though the acquisition had been completed at the beginning of that period:

	2004	2003
Net sales	$ 3,191,010	$ 502,035
Net income (loss)	$ 3,258,277	$ (594,293)
Basic and diluted earnings (loss) per share	$ 0.22	$ (0.04)

The Company exercised its right to purchase the remaining 49% interest in September, 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.

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 paid the acquisition price of $4,000,000 by December 31, 2005, as required by the agreement.

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

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

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 51% equity interest, and therefore controls 100% of Quicknet.

Until such time, if ever, that Chinese law permits the transfer of a direct 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.

NOTE 4 - PROPERTY AND EQUIPMENT

	December 31, 2005	December 31, 2004
Equipment	$ 26,986	$ 24,832
Library	9,554	9,554
Furniture	10,189	9,975

Total		46,729		44,361
Less : Accumulated depreciation		(40,481)		(37,812)
Net	$	6,248	$	6,549

Depreciation charged to continuing operations amounted to $2,705 for 2005 and $2,071 for 2004. Depreciation included in discontinued operations amounted to $nil for 2005 and $397 for 2004.

Index

NOTE 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 new Series “A” Warrant and one new Series “B” 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) new Series “A” 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) new Series “B” 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 new Series “A” and new Series “B” 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 redemption provision allows the Company to redeem the debentures at 125% of the principal amount plus accrued interest after six months of the effective date of the registration statement. The redemption option can be viewed as a call option available to the Company. Through the four steps analysis outlined in DIG B-16, the redemption provision of the debenture is considered to be clearly and closely related to the economic characteristics and risks of the debt host contract as the amount to be paid upon settlement is not based on changes in an index or the repayment of the contractual amount is not contingently exercisable (paragraph 61(d) of SFAS 133). The redemption provision thus should not be separated from the host contract for separate consideration.

The Company incurred $335,000 as the 10% sales commission of the aggregate purchase price, $100,500 as the 3% expenses of the agent, $16,750 for the agent’s out-of-pocket expenses and $120,609 for legal fees for total costs of $572,859 that are charged to operations for the year ended December 31, 2005 in view of the short term of the debenture.

To December 31, 2005 interest has been paid of $51,087 and accrued of $26,800 for total interest charged to operations of $77,887. The accrued interest is included in accrued liabilities at December 31, 2005.

NOTE 6 - DISCONTINUED OPERATIONS

(a) DISCONTINUED OPERATIONS - INTERNET-RELATED SERVICES

On February 26, 2003, the Company entered into an agreement to sell the internet-related services provided in China to a subsidiary company of Sino-i.com Ltd., the latter a company listed on the Hong Kong Stock Exchange, for total consideration of RMB 20 million (approximately US$2,415,800). The transaction is subject to shareholders approval. Pursuant to Florida law, the Company was required to obtain shareholder approval for the sale of all or substantially all of the assets for a Florida corporation. However, if the assets do not represent all or substantially all of the business, the Board of directors can approve it without shareholder approval, which it did by written consent. Because there has been no operations or cash flows consolidated in the financial statements since 2001, the Company has eliminated this component from its ongoing operations and it does not have any significant continuing involvement in the operations of the component.

The gain on disposal of the internet-related business, together with the related assets and liabilities disposed of, is as follows:

Sales proceeds		$ 2,415,800
Less :	Current assets	(1,992,665)
	Fixed assets	(442,820)
	Current liabilities	3,338,783
Loss on disposal of Dawa		$ 3,319,098

(b) DISPOSAL OF DAWA BUSINESS GROUP INC. (“DAWA”)

On June 30, 2004, the Company entered into a Share Exchange Agreement (the "2004 Share Exchange Agreement") with Windsor Education Academy Inc. ("Windsor"), Dawa Business Group Inc. ("Dawa") and 1041571 B.C. Ltd. ("1041571") whereby the Company exchanged 102 shares, or 51%, of the issued and outstanding common stock of Dawa to 1041571 in consideration for 98 shares, or 49%, of the issued and outstanding common stock of Windsor.

The Company first acquired the 102 shares of common stock of Dawa pursuant to a prior Share Exchange Agreement, dated July 3, 2003, (the "2003 Share Exchange Agreement") between the Company, Windsor, Dawa and 1041571 whereby the Company exchanged 98 shares, or 49%, of the issued and outstanding common stock of Windsor to 1041571 in consideration for 102 shares, or 51%, of the issued and outstanding common stock of Dawa. Prior to the 2003 Share Exchange Agreement, Windsor was a wholly owned subsidiary of the Company.

At the close of the 2004 Share Exchange Agreement, the Company became the beneficial owner of all of the issued and outstanding stock of Windsor and the Company ceased to own any of the common stock of Dawa. The 2004 Share Exchange Agreement did not involve any cash consideration.

The loss on disposal of Dawa during the year ended December 31, 2004, together with the related assets and liabilities disposed of, is as follows:

Sales proceeds		$ 26,862
Less :	Current assets	(61,987)
	Fixed assets	(1,617)
	Goodwill	(60,312)
	Other assets	(145)
	Current liabilities	55,907
Loss on disposal of Dawa		$ (41,292)

Index

NOTE 7 - INCOME TAXES

According to "PRC Joint Venture Enterprises Income Tax Act" which adopted on Sept. 10, 1980 and amended on Sept. 2, 1983:

(1) Joint Venture needs to pay Income Tax if they operate and generate income from PRC;

(2) Tax is based on the total revenue after deducting cost of revenue, expenses and losses;

(3) Joint Venture Enterprises has an income tax rate of 30% from central government, and a 3% income rate from local government, therefore the total income tax rate is 33%;

(4) The Income Loss can be deducted from future years' taxable income, but no more than 5 years;

(5) Tax is calculated on a yearly basis.

Quicknet is subject to 33% income tax rate. There is no Value-added tax for Quicknet. According to "PRC Value Added Tax Temporary Regulation" which adopted on Jan. 1, 1994, VAT is only for enterprises that distribute commodities, process commodities, repair commodities and import commodities. Quicknet provides services; therefore, there is no VAT.

There are no current or deferred tax expenses for the years ended December 31, 2005 and 2004, due to the Company's loss position. The Company has fully reserved for any benefits of these losses. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, as appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes. The income tax effect of temporary differences comprising the deferred tax assets and deferred tax liabilities on the accompanying consolidated balance sheets is a result of the following:

	2005	2004
Deferred tax assets	$ 1,081,616	$ 512,349
Valuation allowance	$ (1,081,616)	$ (512,349)
Net deferred tax assets	$ -	$ -

The net change in the valuation allowance is principally the result of net operating loss carryforwards. The Company has available net operating loss carryforwards of approximately $3,277,623 for tax purposes to offset future taxable income, which expire through 2025. All of the net operating loss carryforwards were generated by the parent company. The Company does not file a consolidated tax return because all of its subsidiaries are foreign corporations. Pursuant to the Tax Reform Act of 1986, annual utilization of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% is deemed to occur within any three-year period.

A reconciliation between the statutory federal income tax rate and the effective income rate of income tax expense for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
Statutory federal income tax rate	33.0%	33.0%
Valuation allowance	-33.0%	-33.0%
Effective income tax rate	0.0%	0.0%

NOTE 8 - SEGMENTS AND GEOGRAPHIC DATA

The Company's reportable segments are geographic areas and two operating segments, the latter comprised of mobile / wireless 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 expense not allocated to reportable segments.

A. By geographic areas	**China**	**Canada**	**Other**	**Total**
For the Year Ended December 31, 2005				
Revenue from continuing operations	$ 4,703,348	$ 199,280	$ -	$ 4,902,628
Operating profit (loss)	257,915	(64,024)	(8,263,719)	(8,069,828)
Total assets	8,152,122	147,803	2,922,438	11,222,363
Depreciation	-	2,697	8	2,705
Interest income	20,193	105	64,634	84,932
Income from discontinued operations	-	-	-	-
Investment in equity method investee	-	-	1	1
For the Year Ended December 31, 2004				
Revenue from continuing operations	$ 1,871,960	$ 298,806	$ -	$ 2,170,766
Operating profit (loss)	55,906	(22,060)	(276,062)	(242,216)
Total assets	6,362,416	75,925	8,689	6,447,030
Depreciation	-	1,906	165	2,071
Interest income	82,588	14	-	82,602
Gain from discontinued operations - net	3,277,444	-	-	3,277,444
Equity loss in undistributed earnings of investee company	-	-	(81,273)	(81,273)
Investment in equity method investee	-	-	1	1

Index

B. By operating segments	Mobile/Wireless communications	ESL education	Other	Total
For the Year Ended December 31, 2005				
Revenue from external customers	$ 4,703,348	$ 199,280	$ -	$ 4,902,628
Intersegment revenue	-	-	-	-
Interest revenue	20,193	105	64,634	84,932
Interest expense	-	-	77,887	77,887
Depreciation	-	2,218	487	2,705
Segment operation profit (loss)	257,915	25,729	(8,353,472)	(8,069,828)
Segment assets	8,152,122	82,490	2,987,751	11,222,363
For the Year Ended December 31, 2004				
Revenue from external customers	$ 1,871,960	$ 298,806	$ -	$ 2,170,766
Intersegment revenue	-	-	-	-
Interest revenue	82,588	14	-	82,602
Interest expense	-	-	69	69
Depreciation	-	1,710	361	2,071
Segment operation profit (loss)	57,964	(11,230)	(288,950)	(242,216)
Segment assets	6,351,943	73,823	21,264	6,447,030

NOTE 9 - COMMON STOCK, STOCK OPTIONS AND WARRANTS

Common Stock

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.

During the year ended December 31, 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 December 31, 2005, $116,667 was recorded as prepaid expenses and $234,633 was recorded as investor relations expense.

During the year ended December 31, 2005, the Company 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.

Index

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 is reflected in an increase in additional paid-in-capital.

Stock Options

The 2,136,000 stock options granted on November 12, 1999 at an exercise price of $3.90 each and the 1,155,000 stock options granted on July 23, 2004 at an exercise price of $0.30 each were only approved by the Board of Directors as the Company did not have an option plan at that time.

The Company filed a Form S-8 for its “2005 Stock Option Plan” with Security Exchange Commission (“SEC”) on May 5, 2005 for up to 3,500,000 Stock Options. “2005 Stock Option Plan” has been approved by a majority vote of the shareholders at the Annual General Meeting held on July 28, 2005. The Company has granted 3,090,000 stock options to employees and consultants under "2005 Stock Option Plan" in 2005 and all options have been exercised as of December 31, 2005.

The Company filed another S-8 for its “2006 Stock Option Plan” with SEC on Nov.3, 2005 for up to 4,000,000 Stock Options. “2006 Stock Option Plan” is a Non-qualified Stock Option Plan meaning it hasn’t been approved by the majority of the shareholders of the Company. There is no option been granted under "2006 Stock Option Plan" as of December 31, 2005.

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.

Options outstanding at December 31, 2005 were 660,000 with option price of $0.30 each. No options were canceled or forfeited during the year ended December 31, 2005. The weighted average remaining contractual life is 1.56 years.

The continuity of stock options can be summarized as follows:

	Shares under option	**Weighted average per share exercise price**
Balance, December 31, 2003	2,136,000	$ 3.90
Granted	1,155,000	0.30
Expired	(2,136,000)	3.90
Balance, December 31, 2004	1,155,000	0.30
Granted	3,090,000	0.32

Exercised	(3,585,000)	0.31
Balance, December 31, 2005	660,000	0.30

F 26

Index

Warrants

5,884,990 Series “A” Warrants at an exercise price of $0.50 each expired on March 31, 2005.

On August 15, 2005, the Company issued 134 new Series “A” Warrants. Each new Series “A” 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 new Series “B” Warrants. Each new Series “B” 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 new Series “A” and “B” 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 that 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 fair value of the new Series “A” 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 new Series “B” 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.

As of December 31, 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 new Series “A” 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 new Series “B” 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 new Series “A” and “B” warrants issued through the Units sold are considered as equity instruments. These warrants are separated from the convertible debentures and are not affected by any of the redemption or early settlement feature of the convertible debentures. The exercisability of the warrants is not contingently depending on the terms of the convertible debentures. The warrants can be exercised within their own specified periods at specified prices. If the related shares cannot be registered, the Company is only obligated to issue unregistered shares to the warrants holders when the warrants are exercised without any penalty. There is no penalty payable in cash by the Company for these new Series “A” and “B” warrants if the Company fails to register the shares. The Company also has enough authorized share capital to cover all the potential shares to be issued.

The fair value of the warrants are $24,286 ($0.34 * 71,429) and $27,143 ($0.38 * 71,429) each, respectively, as determined by using the Black-Scholes Model. The total fair value of the warrants $6,891,486 ($24,286 * 134 + $27,143 * 134) has been recorded as an expense in the statement of operation and a separate line in the equity section of the balance sheet as the amount involved is regarded as a cost of issuance of the convertible debenture. Revaluation has to be done on a periodic basis to update the fair value of the warrants. The periodic difference will be charged to the statement of operation as expenses or expenses recovery and adjustment to the fair value of the warrants in the equity section of the balance sheet.

Index

NOTE 10 - LEASE COMMITMENTS

Operating leases - The Company leases office space under various operating leases expiring through June, 2007. Total rent expense charged to operations during 2005 and 2004 was $292,340 and $155,734, respectively. Future minimum rental commitments are (approximately) $236,513 as follows:

Year Ending	
December 31, 2006	$ 178,670
December 31, 2007	57,843
	$ 236,513

NOTE 11 - RELATED PARTY TRANSACTIONS

Options - The Company's five directors were granted 1,155,000 options to purchase shares at $0.30. 660,000 of the options are outstanding at December 31, 2005.

Wages and benefits - The Company paid $30,866 as wages and benefits to a director and an officer of the Company during the year ended December 31, 2005.

Advances - As of December 31, 2005, the Company advanced $8,485 to a director for expenses to be incurred on behalf of the Company and also advanced $21,443 to a company with a director in common. The advances are non-interest bearing and are repayable within twelve months of December 31, 2005.

NOTE 12 - SUBSEQUENT EVENTS

(a) Litigation
On January 18, 2006, the Company received a letter (the "Default Letter") from the attorney for the Holder of $500,000 principal amount of the Company's Senior Convertible Debenture (the "Debenture") stating that the Company was in default of the Transaction Agreements issued in connection with the Debenture by virtue of the Company's issuance of registered shares of stock to employees and consultants under a Form S-8 Registration Statement and the filing of the Form S-8 prior to the effectiveness of the Registration Statement required under the Registration Rights Agreement (one of the Transaction Agreements).

The Default Letter was withdrawn while the parties tried unsuccessfully through February 2, 2006 to resolve the dispute. The Company denies that it is in default of the Transaction Agreements and will vigorously defend any action which might be brought against it in this matter.

Since no settlement was reached by January 31, 2006, the Default Letter is in effect retroactive to when it was received. The Holder declared the entire balance of the Debenture immediately due and payable. Accordingly, as of January 17, 2006, the aggregate amount of principal and interest claimed to be owed by the Company was $629,868, with interest claimed to accrue at the rate of 12% per annum, pursuant to Section 1(e) of the Debenture. The Company has recorded $33,500 as expense for estimated liquidated damages in the statement of operations for the year ended December 31, 2005.

(b) 2006 Non-Qualified Stock Compensation Plan
The Company filed S-8 for its 2006 non-qualified Stock Option Plan" with SEC on November 3, 2005. The total number of shares of the Company available for grants of stock options and common stock under the Plan shall be 4,000,000 common shares. Stock options may be granted to non-employee directors of the Company or other persons

who are performing or who have been engaged to perform services of special importance to the management, operation or development of the Company. All stock options granted hereunder must be granted within ten years from the earlier of the date of this Plan is adopted or approved by the Company's shareholders. No stock option granted to any employee or 10% shareholder shall be exercisable after the expiration of ten years from the date such NQSQ is granted. The Committee, in its discretion, may provide that an Option shall be exercisable during such ten-year period or during any lesser period of time. At the discretion of the Committee, through the delivery of fully paid and non-assessable common shares, with an aggregate fair market value on the date the NQSO is exercised equal to the option price, provided such tendered shares have been owned by the Optionee for at least one year prior to such exercise.

CHINA MOBILITY SOLUTIONS, INC.

29,214,458 Shares of Common Stock

PROSPECTUS

August 7, 2006