

CHINA MOBILITY SOLUTIONS INC.

(CHMS - OTC:BB)

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Recent Price: \$0.2950
12 Month Target Price: \$1.0000

SPECULATIVE BUY RATING

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Early Bird in the thriving Chinese Mobile Phone Economy
Company Overview

China Mobility Solutions, Inc. (OTC BB: CHMS) is a provider of mobile business solutions that assist corporations in promoting and advertising their brand name, logos, products and services to mobile users in China. In 2006, analysts expect China to have more than 500 million mobile users. The company also derives revenue from tuition fees for Windsor ESL(English Second Language) education products in Canada.

- There are currently more than 388 million mobile users in China and analysts expect this market to **surpass the half a billion user threshold in 2006** (up 47% year-on-year). According to a survey by InStat the number of mobile subs will reach nearly 610 million by 2009, which represents a further 6.8% p.a. CAGR from 2006 through 2009.
- The Chinese telecom and mobile phone handset market for enterprises is **unsaturated with current penetration rate estimated between 25% and 30%**.
- SMS revenue growth in 2004 in China (which **overtook US in 2002 as largest mobile phone market**) was projected **58% above 2003**, according to Chinese Industry Statistics.
- China Mobility Solution's proprietary technology platform was created for corporations in China to directly market to consumers via short text messages (SMS) to their cellular phones and other wireless handheld devices. **Over 220 billion text messages (SMS)** were transmitted in 2005, **representing a tenfold increase over the prior year**.
- Besides its SMS marketing services the company's technology team has completed an R&D effort to expand into new enterprise solutions product mix to existing customers. Examples of these include: **Office Automation Solutions, Mobile Banking, SMS-based service for Police and Mobile Tax Services** launching in 2006.
- CHMS completed the acquisition of **QuickNet Telecommunications Corp.** that is positioning it to become the largest provider of corporate SMS services in China. This deal expanded its client base to over **30,000 Chinese corporations**. In addition the company has a proprietary database with access to 500,000 enterprises.
- CHMS has established **proprietary profit-sharing contracts with China's largest 3 telecommunication providers** -- China Mobile, China Unicom and China Telecom.
- The 3G market in China has great promise. **In-Stat believes 3G licenses will be issued, at the earliest, in the beginning of 2006**, after an industry restructuring of wireless network operators. Three 3G licenses will be issued if China Unicom and China Netcom are to be merged, and **four licenses will be issued if no merger occurs**.
- The **first China Mobility Solutions 3G product** -- a feature-rich mobile marketing solution incorporating streaming media -- is expected to be commercially released upon the Chinese governments anticipated announcement of the opening of the 3G market.
- According to InStat, **WCDMA technology will be the dominating 3G technology in China, while TD-SCDMA will grow gradually over time**. TD-SCDMA is a unique Chinese standard developed by DaTang. China Mobility Solutions believes TD-SCDMA will play a vital role in China's 3G market and has been **working closely with DaTang** to provide solutions based on this standard. CHMS is also working closely with other corporations on field trials involving streaming media solutions for enterprises, with some of its platform devices and solutions already being trial tested by customers.
- **Shares appear attractive given the company's position in an unsaturated industry**. CHMS is poised to capture significant share of the evolving mobile advertising market and mobile user usage of new enterprise services tailored for 'on the go' use. We anticipate that the full acquisition of QuickNet will be accretive to 2006 revenues and continued business expansion that will lead to profitability in FY2007. A larger customer base, introduction of new mobile solutions e.g. mobile banking and wider adoption of 3G in China should fuel revenue growth and transpire into a higher CHMS valuation. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 8-9)

| China Mobile Solutions Incorporated. | | | |
|---|-----------------------|-----------|-----------|
| (all figures in Millions) | | | |
| | | | |
| 52 Week Hi/Lo Range | 0.74/0.25 | | |
| Fiscal Year End | 31-Dec | | |
| Shares Outstanding | 20.01 | | |
| Float (approximately) | 20.01 | | |
| Share price (01/31/2006) | 0.30 | | |
| Market Capitalization | 6.0 | | |
| Average Volume (3 months) | 0.179 | | |
| Insider Ownership | NA | | |
| Institutional Ownership | NA | | |
| Enterprise Value | 6.53 | | |
| Total Debt (09-30-05) | 8.163 | | |
| Total Cash (09-30-05) | 7.634 | | |
| | | | |
| | 9/30/2004 | 9/30/2005 | 9/30/2006 |
| | | | |
| | FY2004 A | FY2005 E | FY2006 E |
| Earnings Per Share (EPS) | -0.02 | -0.01 | -0.02 |
| | | | |
| Book Value (\$/share) | | 0.233 | |
| | | | |
| | FY2004 A | FY2005 E | FY2006 E |
| Total Revenue | 2.17 | 5.600 | 19.200 |
| Cost of Sales | 0.473 | 1.484 | 4.800 |
| Gross Profit/Loss | 1.697 | 4.116 | 14.400 |
| Operating expenditures | 1.939 | 4.400 | 15.300 |
| Net Loss /Profit | -0.258 | -0.284 | -0.900 |
| | | | |
| NA = Not applicable/Not Available. | | | |
| A = Actual Reported figures E = Estimates | | | |
| Balance Sheet & Financial Statement Extracts (09-30-05) | | | |
| (for 9 months ended 09/30/05) | | | |
| Current Assets | 8.010 | | |
| Stockholders Equity | 4.656 | | |
| Goodwill | 4.802 | | |
| EBITDA | -1.972 | | |
| Net Operating Cashflow | 1.791 | | |
| Capital Structure (as at 09-30-05) | | | |
| Authorized Common Stock | 500 000 000 | | |
| Outstanding Stock Options | 660 000 @ \$0.30 each | | |
| Series A Warrants - 71429 shares @\$0.44 Feb-08 | | 134 units | |
| Series B Warrants - 71429 shares @\$0.52 Feb-09 | | 134 units | |
| Series Warrants - 1 shares @\$2.25 Mar-06 | | 10 units | |



COMPANY

China Mobility Solutions, incorporated in Florida in 1996, is a pioneer in developing Short Message Services (SMS) as a primary advertising medium in China. It provides mobile marketing and branding. CHMS is **one of the 1st companies to focus on mobile enterprise solutions to businesses in China** and its rapidly expanding enterprise client base **now exceed 30,000 corporations up from 15,000 at end of calendar 2004**. Their advertising audience stretches across the Chinese telecom landscape, and includes SMS subscribers from China Mobile (#1 largest global mobile carrier), China Unicom (#3 largest global mobile carrier) and China Telecom through proprietary profit share agreements. Other mobile solutions offered include a mobile email system and mobile solutions for field sales to Small and Medium Enterprises (SME).

Only telecom VAS (Value-added services) providers, such as CHMS have access to carrier networks to provide mobility solutions. CHMS has created a platform using C programming language and **built a hub to allow companies to provide mobility services through access of the CHMS platform for a fee**. The company acts as a link between companies and carriers. The platform can be connected to using WAP, GPRS on digital GSM and CDMA networks and is compatible with carrier networks as it supports GSM, GPRS, CDMA and 3G technologies.

The company will receive annual fees for providing access to these networks and for airtime. The mobile carrier will also bill users a traffic fee for each SMS sent over its network. This platform will generate significant SMS traffic and result in CHMS becoming increasingly important to the Chinese mobile carriers.

The company invested in the Link Group, Inc. on December 20, 2001 and January 18, 2002. As of December 31, 2004, the Link Group, Inc.'s financial statements were not sufficiently timely for CHMS to apply the equity method and Link Group, Inc.'s shares ceased trading for over nine months. Therefore, the company recorded an impairment of \$172,250 on these shares, contributing significantly to the 2004 operating loss.

CHMS issued 6,120,000 common shares on June 23, 2004 to acquire 49% stake of QuickNet. The Company then completed a reverse stock split of 3:1 on June 24, 2004. In Q3 2005 the company acquired the remaining 51% share of Quicknet and now controls 100% of this mobile enterprise services provider based in Beijing, China.

Few companies in China today can match the ability of the team assembled by China Mobility Solutions [14 person R&D and 30 person technical support team] capable of planning, designing and implementing a multitude of mobile solutions. The next step will be to build up its sales and marketing teams increasing in-house sales people to 40 from 23, customer service support staff and marketing agents from 4 to 10.

Post the anticipated financing for expansion plans, the total staff will be 140 people, with 10 people in management, 10 in Administration, 20 in R&D, 50 in Technical Support and the balance in Marketing and Sales departments. Current sales support offices are located in Beijing, Shanghai and Shenzhen. The company has a 4 tiered sales approach using advertising agencies and agents, alliances with Mobile Carriers especially China Unicom to co-market solutions to enterprises, in-house sales staff efforts and sales support offices.

TECHNOLOGY & MOBILE SOLUTIONS

The company has developed a highly advanced mobile technology platform with advanced database management, customer relationship management (CRM) and messaging auditing functionality. This platform enables CHMS to offer an attractive suite of options to clients and these include:

- **Mobile Marketing/SMS**

This is the best established and flagship solution for China Mobility Solutions. The company **offers businesses the use of the mobile medium as a communications and entertainment channel between the brand and end-user**. It is used in a wide variety of ways such as for customer acquisition and retention, building loyalty, sales promotions, product launches, to raise brand awareness, redemption or coupon tool, voting, delivery of ringtones and logos and many others. eMarketer reported that mobile marketing is growing in popularity and that **39% of mobile users have received SMS messages from advertisers in Asia, 36% in Europe and 8% in the US**. The cost per contact of this medium is a fraction of traditional marketing costs such as direct mail and call centers running at 15c or less in China versus direct mail starting at \$1 per contact. Studies also indicate a **higher response rate compared to even TV marketing**.

A study by Jupiter research showed SMS advertising to be more than twice as effective as direct mail and also found in their survey that 94% of all advertising text messages are read and 6% of respondents visit the Web site mentioned in the SMS. Coca-Cola's marketing manager expressed optimism on the future of mobile marketing and he forecasted that **50% of marketing budgets could be spent on SMS advertising within decades**. Since its launch in July 2003, the company has served over 30000 companies and collected \$4 million in sales during 2004. Companies that have used Chinese SMS advertising campaigns include **Coca-Cola, Kentucky Fried Chicken, Levi's, Proctor & Gamble, Dino Beach Water Park, and The Bear Factory**.

See Appendix A-1 for Analyst Certification and Important Disclosures.

- Office Automation System

This product was **launched in August 2005 and has been a priority for the company**. This solution has large scale benefit to clients in areas of **CRM, inventory and sales force management and communications**. The company believes it is a tool especially **useful for field-based salespeople** as it allows the employee **to access the company's central database while at the client's site** improving productivity. Employees in the field can have a competitive edge through and instant response to information needs, help them order products, book meetings, coordinate with other salespeople and do reporting via SMS. Companies can send out service information, accept customer enquiries and reply to questions via SMS and manage work schedules. All of these services provide a major cost benefit when compared to cellular phone conversations and helps eliminate paperwork and can streamline many business processes. In summary, **the office automation product allows companies to improve internal communications in all areas, which can improve efficiency, reduce costs and increase revenues while also improving employee productivity and customer satisfaction.**

| Office Automation Solutions | | |
|--|-------------------------------|--|
| Status | Launched August 2005 | |
| Target Market | Small,Medium,Large Businesses | |
| Fee/Per Year to Client | 5000 RMB (\$600) | |
| Projected # Clients, FY2006 [Year 1] | 2000 | |
| Projected Revenue, FY 2006 [Year 1] | 1200000 | |
| Projected Pre-Tax Profit FY2007 [Year 2] | 1800000 | |

- Mobile Email System

This system came to the market in June 2005 and works on **push-based** technology that **automatically delivers email messages to** the recipient's cellular phone without any need for commands for retrieval. This allows companies to improve and speed up communications between employees. A recent contract signed with Lenovo, will be instrumental in future success and rollout of this service and improving recognition and market awareness of mobile email.

- Mobile Banking

This service will allow customers of banks to check their account balances, account information, make transactions via mobile handsets and be informed of new services. Interest rate and exchange rate information will be provided and functionality of making bill payments, report lost or stolen cards and inter-bank account transfers will be included.

| Mobile Banking | | |
|--|---|--|
| Status | Market Ready | |
| Costs to Launch | 1,5 million RMB (\$180000) | |
| Steps to Launch | Raise funds, approach banks through agents or acquisition | |
| Target Market | Customers of Banks | |
| Fee/Per Year to Client | 3000 RMB (\$360) | |
| Projected # Clients, FY2006 [Year 1] | 1000 | |
| Projected Revenue, FY 2006 [Year 1] | 360000 | |
| Projected Pre-Tax Profit FY2007 [Year 2] | 435000 | |

- Mobile Tax Services

This solution will be similar to the office automation package, but tailored to government tax offices enabling them to provide messages to staff and tax filers, improving their customers support. Tax offices can send out notices about filing deadlines and respond to enquiries. Officers will be able to submit tax reports by cell phone even when working away from their offices.

| Mobile Tax Services | | |
|--|-----------------------------------|--|
| Status | Market Ready | |
| Costs to Launch | 1.25 million RMB (\$150000) | |
| Steps to Launch | Raise funds, approach tax offices | |
| Target Market | Tax Offices | |
| Fee/Per Year to Client | 2000 RMB (\$240) | |
| Projected # Clients, FY2006 [Year 1] | 1000 | |
| Projected Revenue, FY 2006 [Year 1] | 240000 | |
| Projected Pre-Tax Profit FY2007 [Year 2] | 290000 | |

- **SMS-based services for Police**

Police departments can use this solution to provide information on fines, fine payments and deliver traffic information. Monitoring of officers locations and police car deployment and tracking will for part of this launch and include base components of the Office Automation package.

| SMS-based Services for Police | |
|---|--|
| Status | Market Ready |
| Costs to Launch | 1.25 million RMB (\$150000) |
| Steps to Launch | Raise funds, approach police dept |
| Target Market | Police departments |
| Fee/Per Year to Client | 5000 RMB (\$600) |
| Projected # Clients, FY2006 [Year 1] | 500 |
| Projected Revenue, FY 2006 [Year 1] | 300000 |
| Projected Pre-Tax Profit FY2007 [Year 2] | 360000 |

DEVELOPMENTS AND OBJECTIVES

The company was one of the first to focus on mobile solutions for businesses in China. Management consists of entrepreneurs with proven technical and managerial skills who have been involved in developing the national standards of billing and access systems for telecom service providers (carriers). **Through its subsidiary it is one of a limited number of telecom VAS companies in China that has obtained licenses for national SMS access numbers** from mobile carriers China Unicom (9111) and China Mobile (1111), enabling it to **offer its VAS services nationwide**.

China Mobility Solutions, Inc. announced in November 2005, that it has entered into a **sales and distribution agreement with the world's 3rd largest PC manufacturer, Lenovo, Inc.** whereby Lenovo will sell CHMS's mobile email systems through Lenovo's distribution channels in China, under the Lenovo brand name. This mobile email system has unique 'push' technology that delivers email to a recipient's cellphone automatically without having to be explicitly retrieved. Lenovo has more than 19,000 employees, with executive headquarters in Purchase, N.Y., principal operations in Beijing, China and Raleigh, N.C and has annual revenues of approximately \$13 billion. Lenovo sells PC products and value-added professional services to customers worldwide. Moreover, CHMS completed a successful road show demonstrating its mobile e-mail systems earlier in 2005 and has discussed incorporating these systems into bundle services with several other leading PC and mobile phone manufacturers in China and the United States, which may bear fruit in FY 2006.

After September 2005, the company **acquired the remaining 49% stake of Quicknet Telecommunications Corp, a fast growing provider of mobile solutions to Chinese enterprises**, raising their total holding to 100% interest. This corporate transaction drastically **expanded the direct client base of CHMS to over 30 000 corporations** which should provide a meaningful boost to FY 2006 Revenues. Quicknet generated \$4 million in sales in 2004 and full integration starting late 2005 is projected to boost Mobile marketing revenue from roughly \$5 million in FY 2005 to over \$10 million in FY 2006.

CHMS plans to grow organically and through acquisition of other Chinese companies that will compliment the services they offer. To date, Management has identified 2 players that would deliver significant synergies, the first being an SMS company providing **mobile banking systems in Beijing** that has 2 large banking clients and **Little Smart** phone provider in TianJin who has over 80 million subscribers for mobile wireless phone service and accounts for 22% of the Chinese mobile market. On Feb 1, 2005 just prior to release of this report, CHMS announced that it has reached an agreement in principle for the terms and conditions to **acquire more than 50 percent of a China-based, short message system banking company**. The announcement said that the two companies have been actively negotiating this acquisition for several months and have reached an agreement in principle. They are currently in the process of finalizing a definitive agreement and the **name of the SMS banking company was not disclosed**.

The first major objective in the coming financial year for China Mobile Solutions will be to **raise \$10 million of equity**, which will cost \$1.2 million. **\$1 million of these proceeds will then be used to launch its Mobile Banking, Mobile Tax and SMS based services for police**, followed by aggressive marketing of existing solutions through a further **\$1.5 million advertising and sales spend**.

CHMS intends using another \$300,000 to open **5 sales support offices across China** and expend a further \$1-2 million on **R&D to enhance existing solutions and develop new solutions including software acquisition**. \$2 to 4 million of proceeds are set aside for acquisitions mentioned above, which will leave reserve funds of \$1.5 million for general working capital needs.

See Appendix A-I for Analyst Certification and Important Disclosures.

INDUSTRY AND MARKET OPPORTUNITY

Most fundamentally, consumer choice in the PRC, while still a new phenomenon, has experienced a Big Bang. The marketing universe is dynamic but unformed. In most cases, "equity drivers" - intangible associations that reinforce consumer loyalty - have not yet been defined which represents a major opportunity to new entrants able to take the lead in finding new channels to market and offer services to Chinese consumers that are very receptive and easily adjust to and adopt technological change.

China's environment is dynamic. But the government's heavy hand, plus the unchallenged supremacy of traditional television, still narrows the bandwidth of the media revolution. Three hundred and eighty million mobile phones constitute a powerful new medium in the Chinese economy. The wireless phone sector is an industry growing more than 3 times the rate of the overall broad based economy. As part of this phenomenon, SMS (Short Message Service) has become a telecom niche that is quickly gaining momentum abroad. SMS is fast and convenient and inexpensive method of sharing information. Whilst it is already widely used by consumers for personal text communication, **the commercial market for SMS solutions is largely untapped. This booming "thumb economy" has achieved critical mass that is apt for introduction of new business enabled features via mobile phones. According to Chinese state released figures, SMS usage in China accounts for one third of the world's traffic.**

"By the end of 2004, there were 334 million mobile phone subscribers in China, representing only 26% market penetration. In comparison, there were approximately 170 million mobile phone subscribers in the United States. **Over 217 billion text messages were sent last year through mobile phones in China. Total telecom revenue in China for 2004 was over \$110 billion dollars, compared to \$59 billion in 2003.** We are well positioned to expand our services and develop additional business within China's mobile business solutions market during 2005," said Angela Du, President of China Mobility Solutions.

Advertising on mobile devices via SMS is seeing growing interest from corporations looking at cheap efficient alternatives to conventional TV, billboard, radio and print media options, to reach consumers. For Example, Mengniu yoghurt sponsored Supergirl, a Pop Idol-like singing competition during which four million votes were cast via text. This was one of the largest ever democratic exercises in China's history. Mengniu sales skyrocketed and created a huge buzz that spooked the Communist Party into tightening regulations. **Vote-driven promotions are now banned on all provincial and local stations; they can run only on CCTV,** China's national television network. Regulatory intervention is perhaps the single biggest risk that can stifle or contain growth of mobile advertising in the PRC than what would be possible under a free less regulated market more likely found in Western economies. To date most of the regulations have only been prescriptive in terms of content found undesirable by the Government and regulatory actions permeates most industries and business life in China.

Text messaging is becoming an accepted medium for business communications overtaking older, well-established technologies such as pagers. UK companies are starting to rely on SMS more than any other medium to communicate mission critical and real-time information to employees, customers and partners, according to a survey conducted by Topcall. One example is a European company using SMS to better manage employee downtime due to sickness by using text messaging to find replacements (often within minutes) to fill shifts of those who have called in sick, saving valuable time and money.

With market penetration rates still low, management of CHMS believes there is still considerable room for the company to become a major player in the Chinese telecom landscape. Management's view is **that a focus on the unsaturated enterprise market, rather than competitive consumer space in their business model, offers more growth potential.** They view that existing VAS providers have not concentrated on the business user market because of one or more of the following reasons: (1) **Lack of operational experience** at generating revenues from enterprises. (2) Do not possess the **required technology** to make this feasible and/or (3) **Lack or Inability to easily access business consumer information.** This is where CHMS can reap market share by being able to address all of these areas. Management looks closely to the direction and characteristics of mobile user and mobile advertising trends amongst businesses in the Western European market as indicator of what will be happening soon in the Chinese mobile market.

SMS as a medium has emerged as a star in the world of mobile telephony and its growth continues worldwide. London based Portio Research, recently cited, that SMS is the cheapest, quickest, easiest, convenient form of peer-to-peer mobile communication ever known and is still growing in all regions. It estimated that global SMS revenues will grow to \$50 billion by 2010, driven by almost 2.38 trillion messages. Portio predicted that for the Asia-Pacific region **SMS traffic will increase to over 1.2 trillion by 2010 from 434 billion in 2004 (18% CAGR), while revenues for the region during the same period seen to grow from \$7.2 billion to \$15.1 billion.** SMS traffic in China in particular is projected to almost triple from 217 billion in 2004 to 620 billion in 2010 (Portio estimate).

Telecom revenue in China is expected to grow to \$76.5 billion in 2005, from \$65.3 billion in 2004 (or 17%). VAS SMS revenues in 2004 represented 1.5% of total industry telecom revenues (\$1.05 billion).

See Appendix A-I for Analyst Certification and Important Disclosures.

FINANCIALS

During 2005, about 78 % of the company's assets were located in China and 22% of the company's assets were located in Canada. In addition, 96% of the China Mobility Solutions revenues were derived from customers in China and 4% of the company's revenues were derived from customers in Canada. In 2005 and 2004, the Company did not derive revenue from any one customer for more than 10% of its total revenue.

Since commencing its business operations in July of 2003, the company has quickly increased its sales per month and is **generating positive cash flow from operations, which was \$1.79 million for the first nine months of 2005**. Revenues for the 1st nine months rose to \$3.537 million in 2005 compared with only \$1.1 million during the same period in 2004. Gross margins remained relatively static at 74% looking at these comparatives. Operating expenses rose to \$4.4 million during first 9 months of 2005, from \$0.921 million during same period in 2004.

Net loss for the first 9 months of 2005 was \$1.937 million, or 11c per share loss on weighted share count of 16.9 million. The net loss for the first 9 months of 2004 was \$0.151 million, resulting in a net loss of 1c per share, on 14.53 million weighted shares outstanding. The company has \$4.8 million of Goodwill on its balance sheet that arose from the QuickNet purchase, which if amortized will pose risk to reduce the book value calculation that currently stands at 23 cents per share. Shares issued during 2005, thus far involve 3.6 million for options exercised and 600 000 shares for services rendered.

The expenses for Q1 through Q3 in 2005 rose sharply compared with prior year period, mainly due to rise in wage costs from \$0.379 million to \$1.03 million and \$1,052,863 of intrinsic value of the conversion feature of the convertible debenture, a 10% sales commission equal to \$335,000, a 3% non-accountable expense allowance of \$100,500 which is related to a convertible debenture completed on August 15, 2005 and \$126,000 stock-based compensation charge.

The 3 year financial projections for the company for periods ended 31 December 2007 can be summarized as follows:

| Revenue in \$US | FY 2005 | FY 2006 | FY 2007 |
|-------------------------------------|----------------|-----------------|-----------------|
| Mobile marketing | 5000000 | 10984940 | 13181928 |
| Office Automation | 300000 | 1500000 | 7000000 |
| Mobile Email | 200000 | 1000000 | 3000000 |
| Mobile Banking | 0 | 1454545 | 2909091 |
| Mobile Tax Services | 0 | 969697 | 1939394 |
| SMS Services for Police | 0 | 1212121 | 2424242 |
| New Solutions | 0 | 2121212 | 9696970 |
| Total revenue | 5500000 | 19242515 | 40151625 |
| Total Operating Expenditures | 4400000 | 15392012 | 32121300 |
| Pre-Tax Operating income | 1100000 | 3850503 | 8030325 |

Liquidity and Capital Resources

China Mobility Solutions had a strong cash position of \$7,634,523 at the quarter ended September 30, 2005. The existing cash on hand will be used to fund continuing operations. The company has no other capital resources other than the ability to use its common stock to achieve additional capital raising. Other than cash capital, its other assets would be illiquid. At the quarter ended September 30, 2005 it had \$8,010,631 in current assets and current liabilities of \$8,163,831.

Net cash flows provided by operating activities increased to \$1,791,120 for the quarter ended September 30, 2005. On September 30, 2005, CHMS acquired the remaining 49% of Quicknet that it did not own, and paid **\$2,000,000 on September 30, 2005. Another \$2,000,000 was due before December 31, 2005**, which was included as part of the accounts payable as of September 30, 2005. The company **raised US\$1,115,000 through issuing common stock and \$3,350,000 through issuing convertible debentures during Q3 FY 2005**. This financing was obtained with accredited investors and institutional investors, on August 15, 2005, raising gross proceeds of \$3,350,000 to better support its future growth. The private placement consisted of 134 units, each sold at \$25,000 and consisting of a \$25,000 senior debenture convertible at \$0.35 per share for 71,429 shares of common stock and class A and class B warrants exercisable at \$0.44 and \$0.52 per share respectively, both for 71,429 shares, subject to adjustment under certain circumstances. Meyers Associates, LP has acted as investment banker and placement Agent for this transaction.

The company believes it has sufficient capital to meet its short-term cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. Management guided that they intend to raise up to \$10 million in additional funds, which is earmarked for promoting mobile solutions nationwide to businesses, establishing sales support offices in key centers and developing new solutions that are being demanded by clients and for acquisition of other mobile companies that can deliver synergistic benefit.

Other noteworthy financial and per share statistics are listed in the table found on page 1 of this report.

RISK FACTORS /CONCERNS

The various operating units have inherent risk. The company's future is largely dependent upon the success in the adoption and rollout of all of its mobile solutions to enterprises in China and executing its business plan. CHMS's business development is substantially dependent on the expertise of its management team and directors, the loss of which could materially adversely affect future anticipated results. The company is still considered to be early in its life cycle and has modest reported revenues and short financial history.

The company may not be able to generate or obtain sufficient funds to operate its business. Most recent quarterly financials statements alert to the fact that liquidity may be insufficient to support the expansion and business plans of CHMS. There can be no assurance the company will be successful in its effort to secure additional financing for expansion that lie ahead. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices below \$0.50 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. **We caution that historical volume activity on CHMS has been noticeably light, but we expect trading volumes to improve in the coming months.** Major dilution of common stock can occur if company issues large blocks of common stock or convertible debt are converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically or if sold in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for CHMS. The bulk of the company's operations, revenues and assets are generated in and located in China. **Revaluation of the Chinese Renminbi** by authorities to allow the currency to strengthen can occur in 2006 that may provide a boost to financial numbers since the reporting currency is in US dollars. Likewise a risk exists that more flexibility introduced and more steps are announced to liberalize Chinese Yuan market could have an adverse affect if capital is reallocated on predominantly redeployed in the US and Canadian operations. **Regulatory risk** of doing business in China remains high and should be considered by CHMS investors. Policy changes by the Chinese Government is part and parcel of doing business in the PRC and any changes affecting the mobile and telecoms industry pose risk to the business outlook. Further policy changes and unexpected regulatory actions the Government and/or MII (Ministry of Information Industry) deem fit to protect the Chinese economy and new requirements may result in failure to earn revenues and profits that could disappoint investors.

The company may from time to time be parties to various legal **actions, litigation or legal claims**. On February 7, 2005, Sino-I Technology Limited sued the company for an amount of \$88,270 surrounding breach of warranty and a claim under a guaranty. The counsel of China Mobile Solutions is vigorously defending this action. Management stated that for the Education Services side, competition is very fierce. The **Canadian government has tightened its budget on English training** for new immigrants, which lead to a termination of government funding for the Windsor, and this change had negative effects to the revenue of Windsor Education Academy, which represents 4% of the total revenue for CHMS. The most recent filing highlights that there are some material weaknesses in reporting and controls related to the Chinese operations that are being addressed. Further elaboration on risk factors are contained in Form 10-QSB, filed with the SEC on November 10, 2005.

MANAGEMENT AND BOARD MEMBERS

China Mobility Solutions is managed by a qualified and experienced team. In its previous Internet services business, China Mobility Solutions (led by CEO Xin Wei and President Angela Du) set up branches in 19 cities in China, managed more than 200 employees, and generated approximately US\$7 million in sales in 2003. The current Vice President in China, Michael Liu, was previously president of a major investment company, while Frank Wu, the CTO, was a senior executive for Motorola.

Xin Wei, Chief Executive Officer

Mr. Wei is the co-founder of China Mobility Solutions Inc. He has a computer science background and started his own business before he graduated from university. He has been president of several companies in China, including both domestic and Sino-foreign joint venture companies. Mr. Wei maintains a broad network among government authorities and within the telecommunications industry. He is also experienced in building a major Internet services business, having successfully operated Xinhai Technology and Development Corp., an Internet value added company that within three years became the largest Web hosting and domain name registration business in China.

Michael Liu, Vice President of China Operation

Mr. Liu was President of an Investment Company owned by the Beijing Municipal Planning and Management Committee. He was also President of Beijing Sitech Corp. before he co-founded QuickNet. Mr. Liu received his Masters degree in Finance from The Central University of Finance and Economics in Beijing.

Frank Wu, Chief Technology Officer

Mr. Wu was Senior Manager of Motorola China's Computer Department for many years. He was involved in developing the national standards of billing and access systems for telecom service providers in China. He was also involved in establishing the standard (SGIP) for China Mobile in 2000. In 2001, he helped establish the standard for China Unicom's SMS and other mobile value-added services. Mr. Wu received his Master's degree from the Telecommunication Science and Technology Research Institution.

Angela Du, President

Ms. Du received a Master of Science in Finance and Management Science in 1996 from the University of Saskatchewan, Canada. She has been President of InforNet Investment Corp, CHMS's wholly owned subsidiary in Canada, since 1997. She was one of the founders of China Mobility Solutions and successfully ran the domain name registration and Web hosting business in China. She served as President of the Company from 1997 to 1999, and from 2003 to present.

Ernest Cheung, Director and Secretary

Mr. Cheung has been a Director of China Mobility Solutions Inc. since 2002. He received a 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, which is now Merrill Lynch Canada. He has served as a director of several public companies.

Greg Ye, MBA, CPA - Director.

Mr. Ye brings 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, the world's 9th largest software company, 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 U.S. high-tech start-up companies. 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.

Bryan D. Ellis

Bryan D. Ellis 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.

INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that **China Mobility Solutions, Inc.** is an interesting speculative play among micro-cap companies offering **exposure to the investor on advertising and wireless value added solutions market in the fast growing enterprise segment of the Chinese mobile market.** We believe the company is well positioned in establishing a strong foothold as a niche player in the Chinese telecom industry.

Inroads into **focusing on the enterprise space rather than saturated consumer space in the mobile market, promises higher revenues, better margins and a higher percentage of recurring revenue.** We believe that this strategy will be lucrative and beneficial to position the company to build on its early leadership.

Both operating and financial risk involved in investing in a young technology company are typically high and should be considered by investors. In this case the risks are tied to the uncertainty surrounding effective market penetration and efficacy and speed of adoption by small, medium and large enterprise clients. While competition in the market for several of its products remains intense, we believe that CHMS will be able to establish a meaningful industry presence through its high quality technical team, Lenovo Partnership, innovative solutions and management's strong track record in previously building a successful and profitable technology company that grew through a network of offices and agents throughout China and its. Readers should understand that there can be **no assurance that the company will be able to fast-track its intended transition from focusing mobile marketing efforts towards full commercialization of all of its developed services and entire product suite that** will flow through directly to the top and or bottom line.

We therefore only recommend investors that have a **high tolerance for risk** that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to CHMS should do so with **absolute minimum 2 year investment horizon**, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will **allow the value behind the mobile solutions of China Mobility Solutions to be unlocked. Short term see upside for CHMS shares after its recent drift. In the medium term a major risk factor of delays in receipt of additional funding to the count of \$10 million for full rollout of its business plan may plague the rating of the shares until adequate funding is secured** that will satisfy concerns that may be present, or resurface in the investor community. We believe that this may act as a short-term headwind in the absence of other positive news.

See Appendix A-1 for Analyst Certification and Important Disclosures.

Based on recent QuickNet acquisition and Lenovo partnership and good reception of recently launched solutions such as mobile email, and office automation, we are positive that both the client base will increase in scope and client activity will begin to ramp in the coming financial year, that will raise revenue generation and lift shareholder value and investor recognition.

Under the assumption that capital raising activity is achieved and expecting mobile marketing revenue to double its contribution to overall revenue in 2006, positive cash flow from operations to be generated in FY 2006 as more progress is made to bring products to market and establish a presence amongst corporate advertisers, we are of the opinion that CHMS stock has major upside potential. Given the prolific growth in China's mobile market services segment, the looming introduction of market ready solutions, we believe that the company has several multimillion dollar opportunities in the offing that can result in exponential growth. We are of the opinion that revenue potential of \$15 to \$20 million exist in the coming 12 months for this concern. Assigning conservative price to sales multiple, using telecom related peer comparisons, of 1.4 to 2.0 times, and using a Enterprise to pre-tax earnings multiple (EV/EBITDA) of 3.8x, we arrive at a bold market valuation (using this blended approach) looking ahead 12 months ranging from as low as \$15 million to as high as \$38 million.

Bearing in mind the risk associated with product rollout and product introduction and also allowing a discount for an OTC issue and other risk factors, the upper limit of this market capitalization range may need to be tempered. All factors considered, we anticipate a stake in CHMS will have substantial upside potential in the coming 12 months, which can translate into share price appreciation from \$0.30 to closer to the \$0.75 to \$0.95 per share price range. These price targets are calculated assuming a conversion of Warrant Units using share count of 40 million shares.

We HIGHLIGHT to the reader that this forecast is made under the assumption that the company can attain our FY2006 revenue expectation of at least \$19 million. Moreover, we believe that the present market for CHMS shares is far from efficient, does not fully reflect the leverage possible from its propriety database of over 500,000 companies across China. We regard the present market capitalization as modest and draw attention to the fact that the present share price is trading below the cash per share metric with market capitalization of only \$6 million compared to cash available that exceed \$7.6 million and taking cognizance of healthy balance sheet. In essence, the investor receives upside for the business for free. Despite the robust revenue growth projected for the coming year, we do not expect profitability to emerge until FY 2007 at the earliest due to increased costs of expansion and fixed costs associated with the launch of new solutions and current gross margin assumptions used in our model. If after tax profitability is achieved earlier than we expect it would provide further support to our targeted 12 month price range.

Under these assumptions we initiate coverage on CHMS with a SPECULATIVE positive rating. Risk to our recommendation include amongst other, failure to cultivate advertising client awareness of its solutions, low penetration rates of new services launched, slow adoption and lag time by corporations, police and banks for product offerings and inability to deliver revenue goals, timing delays in implementation of CHMS product rollout and or unforeseen regulatory changes impacting adversely on the mobile solutions industry. Also, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, are some additional factors that will counteract price appreciation potential or cause shares to decline in value. We would caution that given the size of the company and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.

See Appendix A-I for Analyst Certification and Important Disclosures.



ANALYST CERTIFICATIONS

APPENDIX-A1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the company's rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes.

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