

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

CHINA WIRELESS COMMUNICATIONS INC
Form 10QSB
August 04, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the quarterly period ended: June 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT
For the transition period from _____ to _____

Commission file number: 333-49388

CHINA WIRELESS COMMUNICATIONS, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

91-1966948
(IRS Employer
Identification No.)

1746 COLE BOULEVARD, SUITE 225, GOLDEN, COLORADO 80401-3208
(Address of principal executive offices)

(303) 277-9968
(Issuer's telephone number)

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

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

Yes No

Number of shares outstanding of the registrant's class of common stock as of June 30, 2006 was 130,916,821.

Transitional Small Business Disclosure Format (check one): Yes No

CHINA WIRELESS COMMUNICATIONS, INC.

INDEX

PART I. FINANCIAL INFORMATION

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

| | |
|---|----|
| Item 1. - Financial Statements | |
| - Condensed Consolidated Statements of Operations Three Months Ended June 30, 2006 and 2005; and Six months Ended June 30, 2006 and 2005 (Unaudited)..... | 3 |
| - Condensed Consolidated Balance Sheet As of June 30, 2006 (Unaudited)..... | 4 |
| - Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2006 and 2005 (Unaudited)..... | 5 |
| - Notes to and Forming Part of the Condensed Financial Statements..... | 6 |
| Item 2. - Management's Discussion and Analysis or Plan of Operations | 9 |
| Item 3. - Controls and Procedures..... | 12 |
| PART II. OTHER INFORMATION | |
| Item 1. - Legal Proceedings | 13 |
| Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds..... | 13 |
| Item 3. - Defaults Upon Senior Securities | 13 |
| Item 4. - Submission of Matters to a Vote of Security Holders | 13 |
| Item 5. - Other Information | 13 |
| Item 6. - Exhibits..... | 13 |
| SIGNATURES | 16 |
| CERTIFICATIONS..... | 17 |

CHINA WIRELESS COMMUNICATIONS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 Six Months and Three Months Ended June 30, 2006 (Unaudited)

| | US\$ FOR SIX MONTHS ENDED 2006 | US\$ JUNE 30, 2005 | FO |
|--------------------------------------|--------------------------------------|--------------------------|----|
| Operating revenue: | | | |
| Sales | \$ 147,320 | \$ 128,649 | \$ |
| Cost of sales | 139,574 | 123,600 | |
| | ----- | ----- | |
| GROSS PROFIT | 7,746 | 5,049 | |
| | ----- | ----- | |
| Operating expenses: | | | |
| Common stock issued for compensation | 1,782,305 | 917,968 | |
| Bad debt expense | 39,389 | - | |

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

| | | | |
|--|----------------|--------------|-------|
| General and administrative expenses | 232,021 | 23,650 | |
| | ----- | ----- | |
| TOTAL OPERATING EXPENSES | 2,053,715 | 941,618 | |
| | ----- | ----- | |
| Loss from operations | (2,045,969) | (936,569) | |
| | ----- | ----- | |
| Non-operating income (expenses): | | | |
| Other income | 27,395 | 4,069 | |
| Interest expense | (10,359) | - | |
| | ----- | ----- | |
| TOTAL NON-OPERATING INCOME (EXPENSES) | 17,036 | 4,069 | |
| | ----- | ----- | |
| NET LOSS | \$ (2,028,933) | \$ (932,500) | \$ |
| | ===== | ===== | ===== |
| Net loss per share | \$ (0.0170) | \$ (0.0157) | \$ |
| | ===== | ===== | ===== |
| Basic and fully diluted net loss per common share | \$ (0.0170) | \$ (0.0157) | \$ |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding, basic and fully diluted | 119,540,776 | 59,308,717 | 1 |
| | ===== | ===== | ===== |

The financial statements should be read in conjunction with the accompanying notes

Page 3 of 16

CHINA WIRELESS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
As of June 30, 2006 (Unaudited)

US\$

ASSETS

Current assets:

| | | |
|---------------------------|----|--------|
| Cash and cash equivalents | \$ | 63,389 |
| Prepaid expenses | | 4,112 |
| Accounts receivables | | 11,711 |
| Advances to suppliers | | 8,179 |
| Other receivables | | 2,183 |
| Inventory | | 71,918 |
| | | ----- |

Total current assets 161,492

Fixed assets:

| | | |
|--------------------------|--|----------|
| Vehicle | | 20,125 |
| Office equipment | | 358 |
| Accumulated depreciation | | (11,858) |
| | | ----- |

Fixed assets, net 8,625

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

| | |
|--|--------------|
| TOTAL ASSETS | \$ 170,117 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 282,538 |
| Advances from customers | 82,488 |
| Interest payable | 26,020 |
| Notes payable | 285,358 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 676,404 |
| | ----- |
| Commitments and contingencies | |
| Stockholders' deficit: | |
| Preferred stock, par value \$0.01 per share, 1,000,000 shares of preferred stock authorized, none issued and outstanding | - |
| Common stock, par value \$0.001 per share, 250,000,000 shares of common stock authorized, 130,916,821 shares of stock issued and outstanding | 130,917 |
| Additional paid-in capital | 11,590,277 |
| Accumulated deficit | (12,227,481) |
| | ----- |
| TOTAL STOCKHOLDERS' DEFICIT | (506,287) |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 170,117 |
| | ===== |

The financial statements should be read in conjunction with the accompanying notes

Page 4 of 16

CHINA WIRELESS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2006 (Unaudited)

| | |
|---|--------------|
| | For six m |
| | 2006 |
| | US\$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net loss | \$ (2,028,93 |
| Adjustments to reconcile net loss to net cash (used in) operating activities: | |
| Depreciation | 1,37 |
| Common stock issued for compensation | 1,782,30 |
| Bad debts | 39,38 |
| (Increase) decrease in operating assets: | |
| Prepayments and other receivables | (18,11 |
| Inventory | (71,91 |
| Increase (decrease) in operating liabilities: | |
| Accounts payables and accrued expenses | 62,36 |

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

| | |
|---|-------------|
| Advances from customers | 25,55 |
| Interest payable | 10,35 |
| NET CASH (USED IN) OPERATING ACTIVITIES | (197,62) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Acquisition of fixed assets | (23) |
| NET CASH (USED IN) INVESTING ACTIVITIES | (23) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Proceeds from issuance of common stock | 131,28 |
| Proceeds from issuance of notes payable | 115,18 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 246,46 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 48,61 |
| CASH AND CASH EQUIVALENTS: | |
| Beginning of period | 14,77 |
| End of period | \$ 63,38 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | |
| Interest paid | \$ |
| Income taxes paid | \$ |
| NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES: | |
| Common stock issued for compensation | \$ 1,782,30 |
| Conversion of notes payable into common stock | \$ |

The financial statements should be read in conjunction with the accompanying notes

Page 5 of 16

CHINA WIRELESS COMMUNICATIONS, INC.
NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended June 30, 2006 (Unaudited)

1. BASIS OF PRESENTATION AND STOCK-BASED COMPENSATION

BASIS OF PRESENTATION

The accompanying financial data as of June 30, 2006 and for the three months ended June 30, 2006 have been prepared by China Wireless Communications, Inc. (the "Company"), without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

regulations of the Securities and Exchange Commission. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto of the Company, included in the Company's form 10-KSB for the fiscal year ended December 31, 2005.

In the opinion of the management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company have been made. The results of operations for the three months ended June 30, 2006 are not necessarily indicative of the operating results for the full year.

STOCK-BASED COMPENSATION

The Company records compensation expense for stock-based employee compensation plans using the intrinsic value method in which compensation expense, if any, is measured as the excess of the market price of the stock over the exercise price of the award on the measurement date.

As the exercise prices of the Company's stock options are either the same as or approximate to the market prices of the underlying stock on the grant dates, no compensation expense has been recognized for the stock options.

Had compensation expenses for the same stock options been determined based on their fair values at the dates of grant and been amortized over the period from the date of grant to the date that the award is vested, consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been reported as follows:

STOCK-BASED COMPENSATION

| | Six Months Ended June 30 | |
|---|--------------------------|----------|
| | ----- | |
| | 2006 | |
| | US\$ | |
| Net loss | | |
| As reported | (2,028,933) | (9,333) |
| Total stock-based compensation expenses | - | - |
| | ----- | |
| Pro forma | (2,028,933) | (9,333) |
| | ===== | |
| Basic net loss per share | | |
| As reported | (0.0170) | (0.0170) |
| | ----- | |
| Pro forma | (0.0170) | (0.0170) |
| | ===== | |

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

2. ORGANIZATION

On May 24, 2005, the Company acquired 51% of the stock of Tianjin Create Co., a systems integration and information technology company located in Tianjin, China. Tianjin Create Co. was established in 2002 by Frank Li, a former professor of engineering at NanKai University, the oldest university in China. On May 18, 2006, the Company entered into an amended agreement whereby it agreed to further pay \$105,307 in cash to the founders of Tianjin Create Co., by August 31, 2006 in connection with the acquisition of Tianjin Create Co.

Tianjin Create Co. was acquired by China Wireless in part because of its strategic location in Tianjin City, the third largest city in China. Also, as an established, young, forward-looking company with a customer base in the education, oil & gas, banking, brokerage, commercial and government sectors, Tianjin Create Co. provides a solid base for China Wireless to rebuild its presence in China.

3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In applying the accounting principles, management must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As a result, the actual results or outcomes might generally be different from the estimated or assumed results or outcomes. These differences are included in the consolidated financial statements as soon as they are known. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ materially from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial information of the Company and all of its subsidiaries, namely Tianjin Create Co. All material inter-company balances and transactions have been eliminated on consolidation.

FOREIGN CURRENCIES

Transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date.

On consolidation, the balance sheets of overseas subsidiaries denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the statements of operations are translated at average rates for the period. All exchange differences arising on consolidation are included in other comprehensive income.

REVENUE RECOGNITION

Revenue is recognized when it is probable that the economic benefits will flow to the Company and when the revenue and cost, if applicable, can be measured reliably and on the following bases.

Service revenue is recognized in the period when services are rendered.

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

Sale of goods is recognized on transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed.

Page 7 of 16

CHINA WIRELESS COMMUNICATIONS, INC.
NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended June 30, 2006 (Unaudited)

4. PREPARATION OF FINANCIAL STATEMENTS

The Company is in the process of rebuilding its business to execute on its new business plan, which is focused on acquiring unique and innovative technologies to market in China. The Company has incurred losses of \$12,227,481 since inception, which raises substantial doubt about the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon the successful implementation of its business plan and ultimately achieving profitable operations. However, there can be no assurance that the business plan will be successfully implemented. The inability of the Company to implement the business plan successfully could adversely impact the Company's business and prospects. Details of the plans of operations of the Company are set out in Item 2 of this Form 10-QSB under the heading "Plan of Operation".

5. LOSS PER COMMON STOCK

The weighted average number of shares of common stock outstanding used in the calculation of basic loss per share for the three months ended June 30, 2006 is 129,606,127 shares.

As of June 30, 2006, 9,022,684 shares in total could be issued pursuant to the outstanding convertible debt, stock warrants and stock options of the Company. No diluted loss per share is presented because their effects would be anti-dilutive.

6. RELATED PARTY

During the first five months of 2006, Henry Zaks, a director, loaned us \$23,217 and on May 3, 2006, we issued a promissory note in such amount to Mr. Zaks payable in full on October 2, 2006.

During the 2nd Quarter of 2006, Henry Zaks, a director, loaned us \$2,000 and on June 16, 2006, we issued a promissory note in such amount to Mr. Zaks payable in full on December 1, 2006.

Also, during the 2nd Quarter of 2006, Henry Zaks, a director, loaned us \$7,680 and on June 26, 2006, we issued a promissory note in such amount to Mr. Zaks payable in full on December 1, 2006.

During the first five months of 2006, Pedro E. Racelis, our CEO/President/Director loaned us \$15,500 and on May 3, 2006, we issued a promissory note in such amount to Mr. Racelis payable in full on July 2, 2006.

During the 2nd Quarter of 2006, Pedro E. Racelis, our CEO/President/Director loaned us \$3,612 and on May 30, 2006, we issued a promissory note in such amount to Mr. Racelis payable in full on December 1, 2006.

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

During the first five months of 2006, Michael Bowden, a director and our COO, loaned us \$73,059 and on May 3, 2006, we issued a promissory note in such amount to Mr. Bowden payable in full on July 2, 2006.

During the 2nd Quarter of 2006, Michael Bowden, a director and our COO, loaned us \$1,612 and on June 16, 2006, we issued a promissory note in such amount to Mr. Bowden payable in full on December 1, 2006.

Also, during the 2nd Quarter of 2006, Michael Bowden, a director and our COO, loaned us \$10,000 and on June 26, 2006, we issued a promissory note in such amount to Mr. Bowden payable in full on December 31, 2006.

Page 8 of 16

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD-LOOKING STATEMENTS

Included in this report are various forward-looking statements, which can be identified by the use of forward looking terminology such as "may", "will," "expect," "anticipate," "estimate," "continue," "believe," or similar words. We have made forward-looking statements with respect to the following, among others: our goals and strategies; our expectations related to growth of our broadband internet, content and wireless access and transport in China and the performance under our agreements; our ability to obtain and operate licenses and permits to operate in China; our ability to earn sufficient revenues in China; the importance and expected growth of satellite communications, broadband internet, content and wireless access and transport in China and the demand for these services in China; our ability to continue as a going concern; and our future performance and our results of operations. These statements are forward looking and reflect our current expectations. We are subject to a number of risks and uncertainties, including but not limited to, changes in the economic and political environments in China, economic and political uncertainties affecting the capital markets, changes in technology, changes in satellite communications, broadband internet, content and wireless access and transport in the marketplace in China, competitive factors and other risks described in our annual report on Form 10-KSB filed with the United States Securities and Exchange Commission on May 19, 2006. In light of the many risks and uncertainties surrounding the Company, China, and the satellite communications, broadband internet, content and wireless access and the transport marketplace in China, you should keep in mind that we cannot guarantee that the forward-looking statements described in this report will transpire and you should not place undue reliance on forward-looking statements.

OVERVIEW

We were originally incorporated in Nevada on March 8, 1999 under the name AVL SYS International Inc ("AVL SYS"). On March 9, 2000, AVL SYS changed its name to I-Track, Inc ("ITI"). Effective September 30, 2001, ITI entered into an exclusive worldwide distribution agreement with AVL Information Systems Ltd. ("AVL"), an affiliated Canadian public company. Under the agreement, ITI was licensed to market and distribute all of the products manufactured by AVL. The exclusive distribution agreement with AVL was cancelled in September 2002 at which point ITI began to seek another business opportunity. On March 21, 2003, ITI entered into an "Assignment and Assumption Agreement" with AVL, whereby ITI distributed to AVL all its assets and AVL assumed all liabilities of ITI. Accordingly, as of March 21, 2003, ITI entirely ceased its prior business operations.

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

On March 22, 2003, ITI acquired all of the issued and outstanding shares of Strategic Communications Partners, Inc., a Wyoming corporation ("SCP"), pursuant to the terms of a Share Exchange Agreement. A total of 19,000,000 restricted shares of ITI's common stock were issued to the shareholders of SCP, resulting in the SCP shareholders as a group owning approximately 88.4% of the outstanding shares of common stock. At this time, SCP became a wholly owned subsidiary. On March 24, 2003, in connection with our acquisition of SCP, ITI's name was changed to China Wireless Communications, Inc.

SCP was incorporated in the State of Wyoming on August 13, 2002. Through a subsidiary in China, Strategic Communications Partners Limited ("SCPL"), it provided financial, technical, and marketing services in Beijing, People's Republic of China ("PRC"). SCPL was incorporated in Hong Kong on December 9, 2002. SCPL's business activities to date consist solely of supporting the Beijing operations. On March 4, 2003, SCPL set up a wholly owned enterprise, Beijing In-Touch Information System Co. Ltd. ("In-Touch") in the PRC. Effective July 31, 2004, SCP was merged into us. SCPL then became a direct subsidiary of us as a result of the merger.

In-Touch provided broadband data, video and voice communications services to customers that were not served by existing landline based fiber networks. During the quarter ended December 31, 2004, we closed In-Touch due to high operational expenses incurred and flat sales/revenue generation of the transport business in 2004. All office leases were terminated and transport equipment returned to respective vendors. Additionally, all staff and employees were terminated effective October 1, 2004.

Page 9 of 16

In August 2003, we signed a contract with MCI International Ltd. Co. ("MCI"), with the intent to provide MCI's asynchronous transport mode ("ATM") services to markets in North America, the South Pacific, Asia and Europe (the "MCI Agreement"). We never utilized the ATM and the circuit was disconnected in September 2005.

In December 2004, we signed a strategic consulting agreement with Jiaxin Consulting Group, Inc., a British Columbia corporation ("Jiaxin") to obtain assistance in financial asset management, financial internal controls, operational oversight, and business development in China. On March 8, 2005, we entered into a strategic agreement with Jiaxin for the purpose of forming a holding company for our Chinese operations and incorporated CJ Information Technology Company in Nevada on March 10, 2005. We own 51% of CJ Information Technology Company, while Jiaxin owns 49%. Our original plan was to acquire an interest in Tianjin Create Co., a systems integration and information technology company located in Tianjin, China ("Tianjin Create Co.") through CJ Information Technology Company. However, we have since reassessed our business model and have determined to change the focus of our business. As part of this change, we terminated our agreements with Jiaxin in June 2005 in order to focus on our investment in Tianjin Create Co., as more fully described below. As such, CJ Information Technology Company has been dormant since its inception in March 2005.

On May 24, 2005, we entered into a letter agreement to acquire 51% of the stock of Tianjin Create Co. for total consideration of \$53,840, comprised of cash in the amount of \$40,379 and 448,665 shares of our common stock valued at \$0.03 per share, (a total of \$13,460 in our common stock). We have since paid \$13,460 in common stock and cash of \$8,000 to the founders of Tianjin Create Co. On May 18, 2006, we entered into an amended agreement whereby we agreed to further pay \$105,307 in cash to the founders of Tianjin Create Co. by August 31, 2006.

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

We are now working to change our business from the management of a wireless broadband network to the development of technology integration and IP services in China. Part of this effort involves seeking complementary technologies to build a broad base of products and services to be marketed in China as well as in North America. This broad focus incorporates vertical integration of telephony, IP security, manufacturing, medical and industrial. Investments in these industries will be based on a company's positive financial cash flow, strong management, unique or superior technology/innovation, and its value to the overall corporation's portfolio of companies.

GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of us as a going concern. We incurred a net loss for the six months ended June 30, 2006 of \$2,028,933 and a net loss of \$1,565,521 for the year ended December 31, 2005. At June 30, 2006, we had an accumulated deficit of \$12,227,481 and a working capital deficit of \$514,912. These conditions raise substantial doubt as to our ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

Page 10 of 16

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the rates of exchange on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated at the approximate rates ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the time the asset or liability was acquired.

RESULTS OF OPERATIONS

In the quarter ended September 30, 2004, we began to evaluate the continued high cost versus revenue generation. Our management team came to the conclusion that efforts must be made to reduce operational costs and focus the sales efforts to

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

services that brought immediate value to the network. However, we did not have the funding resources to continue to invest into the Beijing In-Touch operations unless the revenues increased significantly. We re-evaluated the assets and capability of In-Touch to continue as a profitable and value-added business. Therefore, late in the 3rd quarter of 2004, it was deemed imperative that we seek an alternative plan to recover the business and regain shareholder confidence in the company.

Operating expenses for six months ended June 30, 2006 were \$2,053,715, as compared to \$941,618 for six months ended June 30, 2005. Net losses for six months ended June 30, 2006 and 2005 were \$2,028,933 and \$932,500, respectively. Operating expenses for six months ended June 30, 2006 included \$1,782,305 relating to issuance of stock for compensation versus \$917,968 for six months ended June 30, 2005, an increase of \$864,337 in the issuance of stock for compensation.

During six months ended June 30, 2006, the Company generated sales revenues of \$147,320 compared with \$128,649 for the six months ended June 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2006, we used \$197,626 in cash for Operating activities. The most significant adjustment to reconcile the net loss to net cash used in operations was common stock issued as compensation amounting to \$1,782,305. Financing activities provided cash of \$246,468 through issuances of our common stock and increases in notes payable through borrowings. Our directors loaned the Company a total of \$51,915 during the quarter ended June 30, 2006.

At June 30, 2006, we had current assets of \$161,492 and current liabilities of \$676,404, resulting in a working capital deficit of \$514,912, as compared to a deficit of \$399,895 at March 31, 2006.

PLAN OF OPERATION

We are focusing our efforts on becoming a premier information technology company. We believe that the information technology business is beginning to develop quickly in China and that we can be a major player in its development. Additionally, we have identified several unique and innovative North American technologies that can be marketed to business customers in China through our subsidiary, Tianjin Create Co. As the Company begins to execute its business plan, we will utilize the leadership of Tianjin Create Co. to oversee and manage the operations in China. Staffing levels in China will be increased only as required or as such action is required due to business growth.

The acquisition of Tianjin Create Co. has reestablished our business presence in China as we build upon its existing business and experience. We manage all of our operations in China via Tianjin Create Co. Tianjin Create Co. is a key component to building the company's broad base information technology, products and services in China, including computer installation and maintenance, broadband transport service, server installation maintenance and support, internet services, broadband transport redundancy, fixed wireless transport and information hosting.

Tianjin Create Co. operates in Tianjin City, the third largest city in China. Comparable in many respects to Chicago, Illinois in the United States, Tianjin City has a population of approximately 10,000,000 people and is a major import and export center for China. Major industries and markets located in Tianjin City include educational, industrial, international

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

port city, medical, manufacturing and government. Tianjin City is Beijing's gateway to the sea and has over 25 ten thousand ton ship berths. The harbor is considered the number one demarcation point for products entering and leaving China. Tianjin's harbor is geographically the second largest in China.

In addition to being the industrial and financial capital of northern China, Tianjin City is home to 31 of China's most noteworthy universities, including Tianjin University, China's first neoteric university. Tianjin City is also the headquarters for Motorola Corporation of China. Tianjin has been selected to host the 2008 Olympic Games Football (Soccer) contests.

Through Tianjin Create Co., we provide information technology and IP services to customers in China. Our newly formed partnership has enabled us Company to provide engineering and IP service support for existing and future IP customers in China. The customer base includes Nankia University, Tian Sea Transportation Company and Tianjin Gas Company. Additionally 20 of Tianjin City's 31 universities utilize products or services provided by Tianjin Create Co. We are also able to offer a broad base of information technologies ranging from IP security, wireless broadband, and Wi-Fi to "last mile" transport connections.

The design and construction of fixed wireless broadband network systems will be part of the overall information technology strategies being executed. Each of the companies with which we are considering partnering has sufficient telephony and broadband access capabilities to meet their business objectives. However, we plan to broaden our scope to become a systems solutions company that will provide a broad base of information technologies through our partnership companies. These technologies include, but are not limited to, engineering design, implementation of Wi-Fi, fixed broadband wireless, systems integration, IP security, information firewalls, data storage, voice/video/data telecommunications services and managed communications services. To further broaden our scope, we are exploring leading edge technologies in the equipment manufacturing, education, brokerage/bank security, network/computer security, interactive video, oil & gas, power (electrical) disaster recovery & monitoring and medical industries to acquire.

The Board and management team believe the best path to regain shareholder value, establish profitability, and improve the Company's stock performance is to focus on acquiring complementary technology and/or cash flow-positive companies interested in a long term relationship. Thus, we are evaluating potential acquisition targets in North America in order to market innovative products and services through our assets in China. A subsidiary relationship similar to that of our Tianjin Create Co. structure would be employed for a North American entity. The subsidiary company in turn may form a foreign joint venture, as required by the laws of the local jurisdiction.

The advantage of pursuing this course of action is to reduce investment and startup costs while focusing on achieving positive cash flow in a timely manner. The companies being evaluated as possible acquisitions have captured a segment of the growing market in their technology specialty and require the subject matter proficiency, access to future funding, and new technology that the Company can provide. Additionally, the companies being evaluated as possible acquisitions would be cash flow positive, having complementary technology, broad customer bases, and strong management focused on forming a partnership with a public company for the long term.

As part of our ongoing business planning, we are continuing discussions with an outside management-consulting group to assist with business development, fund raising strategies, acquisition of information technology products, public relations, and support for the Board and management. The management-consulting

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

group would also provide direction and focus for existing and new market penetration.

We intend to expand our Tianjin Create Co. operation in order to better take advantage of system integration opportunities available. The focus of our systems integration efforts has been in the educational, transportation, natural gas and manufacturing markets. In addition, the pool of highly skilled engineering, marketing, sales, and operations personnel in China will be key to our success in growing our business. We also intend to expand our US operations by investing in sales/marketing staff to market products in North America.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer / Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in

Page 12 of 16

Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934 as of June 30, 2006. Based on his evaluation, our Chief Executive Officer / Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the date of the evaluation.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in the preceding paragraph.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

REGULATION
S-B NUMBER

EXHIBIT

2.1 Share Exchange Agreement dated as of March 17, 2003 by and

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

between i-Track, Inc. and Strategic Communications Partners, Inc.
(1)

| | |
|------|--|
| 3.1 | Articles of Incorporation (2) |
| 3.2 | Bylaws (2) |
| 3.3 | Certificate of Amendment to Articles of Incorporation (3) |
| 3.4 | Certificate of Amendment to Articles of Incorporation (4) |
| 10.1 | Promissory Notes in the aggregate amount of \$140,000, payable to Buck Krieger (10) |
| 10.2 | Promissory Note, dated June 27, 2003 in the amount of \$50,000, and dated July 31, 2003 in the amount of \$30,000, payable to Henry Zaks (5) |
| 10.3 | Promissory Note, dated July 31, 2003 in the amount of \$20,000, payable to Robert Zappa (10) |
| 10.4 | 2003 Stock Plan, as amended (6) |

Page 13 of 16

REGULATION
S-B NUMBER

EXHIBIT

| | |
|-------|--|
| 10.5 | Investment Contract between Goldvision Technologies Ltd and SCP dated December 18, 2003 (6) |
| 10.6 | Extension Agreement to Investment Contract between Goldvision Technologies Ltd. and the Company dated August 5, 2003 (5) |
| 10.7 | Employment Agreement dated March 25, 2003 with Phillip Allen (6) |
| 10.8 | Employment Agreement dated March 25, 2003 with Brad A. Woods (6) |
| 10.9 | Separation & Voting Trust Agreement with Philip Allen (5) |
| 10.10 | Agreement between the Company and Bellador Advisory Services, Ltd. dated October 22, 2003 (5) |
| 10.11 | Agreement between the Company and China Netcom Group Beijing Company dated September 1, 2003 (5) |
| 10.12 | Agreement between the Company and MCI International Ltd. Co. dated August 14, 2003 (10) |
| 10.13 | Amendment to Employment Agreement dated April 23, 2004 with Brad A. Woods (7) |
| 10.14 | Employment Agreement dated April 23, 2004 with Pedro E. Racelis III (7) |
| 10.15 | Consulting Agreement with Jiaxin Consulting Group, Inc. dated December 8, 2004 (10) |

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

| | |
|-------|---|
| 10.16 | Letter agreement with Tianjin Create Company Ltd. dated May 24, 2005 (11) |
| 10.17 | Employment Agreement dated July 20, 2005 with Michael A. Bowden (12) |
| 10.18 | Promissory Note, dated August 1, 2005 in the amount of \$12,698.16 payable to Michael Bowden (12) |
| 10.19 | Employment Agreement dated March 1, 2006 with Michael A. Bowden (12) |
| 10.20 | Employment Agreement dated March 1, 2006 with Pedro E. Racelis III (12) |
| 10.21 | Amendment to Letter agreement with Tianjin Create Company Ltd. dated May 18, 2006 (12) |
| 10.22 | Promissory Note, dated May 3, 2006 in the amount of \$15,500 payable to Pedro E. Racelis III (12) |
| 10.23 | Promissory Note, dated May 3, 2006 in the amount of \$23,217 payable to Henry Zaks (12) |
| 10.24 | Promissory Note, dated May 3, 2006 in the amount of \$73,059 payable to Michael Bowden (12) |
| 10.25 | Promissory Note, dated May 30, 2006 in the amount of \$3,612 payable to Pedro E. Racelis III |
| 10.26 | Promissory Note, dated June 16, 2006 in the amount of \$2,000 payable to Henry Zaks |
| 10.27 | Promissory Note, dated June 16, 2006 in the amount of \$1,612 payable to Michael A. Bowden |

Page 14 of 16

REGULATION
S-B NUMBER

EXHIBIT

| | |
|-------|--|
| 10.28 | Promissory Note, dated June 26, 2006 in the amount of \$10,000 payable to Michael A. Bowden |
| 10.29 | Promissory Note, dated June 27, 2006 in the amount of \$7,680 payable to Henry Zaks |
| 16.1 | Letter from the Rehmann Group, dated April 22, 2003 (8) |
| 16.2 | Letter from Moores Rowland, dated February 28, 2005 (9) |
| 21.1 | Subsidiaries of the registrant (12) |
| 31.1 | Rule 15d-14(a) Certification |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

- (1) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 17, 2003.
- (2) Incorporated by reference from the exhibits to the Registration Statement on Form SB-1 filed on November 6, 2000, File No. 333-49388.
- (3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 22, 2003.
- (4) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated November 23, 2004.
- (5) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2003.
- (6) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2002.
- (7) Incorporated by reference to the exhibits to the registrant's registration statement on Form S-8 (File No. 333-104457, filed April 27, 2004).
- (8) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated April 15, 2003.
- (9) Incorporated by reference to the exhibits to the registrant's amended current report on Form 8-K dated January 11, 2005.
- (10) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2004.
- (11) Incorporated by reference to the exhibits to the registrant's amended current report on Form 8-K dated May 24, 2005 and filed June 6, 2005.
- (12) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2005 and filed May 22, 2006.

Page 15 of 16

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA WIRELESS COMMUNICATIONS, INC.
(Registrant)

Date: August 4, 2006

By: /s/ PEDRO E. RACELIS III

Pedro E. Racelis III,
President and Chief Financial Officer

