

ANV SECURITY GROUP INC.  
Form 10-Q  
November 14, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C.20549**

**FORM 10-Q**

(Mark One)

**[X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2012**

**OR**

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-53802**

**ANV Security Group, Inc.**

**(Exact name of registrant as specified in its charter)**

Nevada  
**(State or other jurisdiction of  
incorporation or organization)**

13-3089537  
**(I.R.S. Employer  
Identification No.)**

8th Floor, Block B, R&D  
Building, Tsinghua Hi-Tech  
Park, North Area of Shenzhen  
Hi-Tech & Industrial Park,  
Nanshan District, Shenzhen,  
China  
**(Address of principal executive  
offices)**

518057

**(Zip Code)**

011-86-755-8665-6436

**(Registrant's telephone number, including area code)**

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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 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 a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 14, 2012, 56,950,660 shares of common stock, par value \$0.001 per share, were outstanding, of which 10,545,461 shares were held by non-affiliates.

**ANV SECURITY GROUP, INC.**

**FORM 10-Q**

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## PART I Financial Information

## Item 1 Financial Statements

**ANV Security Group, Inc.****Consolidated Balance Sheets****(Expressed in US dollars)**

	September 30 , 2012 (Unaudited)	As of December 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 103,016	\$ 1,388,743
Accounts Receivable, net	1,463,890	4,860,072
GST Receivable	0	11,671
Inventories, net (Note 3)	24,374	5,252,778
Prepayments and Deposits	15,201	1,399,787
Due from Shareholders	144,931	177,683
Total Current Assets	1,751,412	13,090,734
Property, Plant and Equipment , net (Note 4)	67,583	636,787
Intangible Assets (Note 5)	1,281,048	1,692,613
Goodwill (Note 5)	0	4,197,256
Deferred Tax Assets (Note 10)	0	1,397,267
Total Assets	\$ 3,100,043	\$ 21,014,657
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts Payable and Accrued Expenses (Note 6)	\$ 51,630	\$ 6,964,264
Due to Related Parties	0	100,801
Total Current Liabilities	51,630	7,065,065
Total Liabilities	51,630	7,065,065
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Common Stock ( \$0.001 par value, 100,000,000 shares authorized, 56,950,660and 74,463,465 shares issued and outstanding, respectively)	56,951	74,130
Additional Paid-in Capital	16,337,998	19,917,289
Treasury stock	0	0
Deficit Accumulated	(13,909,769)	(6,653,429)

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Accumulated Other Comprehensive Income	563,233	611,602
Total Stockholders' Equity	3,048,413	13,949,592
Total Liabilities and Stockholders' Equity	\$ 3,100,043	\$ 21,014,657

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

## ANV Security Group, Inc.

## Consolidated Statements of Operations

(Expressed in US dollars)

(Unaudited)

	For Three Months Ended		For Nine Months Ended	
	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Continuing Operations				
Revenues	\$ 26,039	0	26,325	0
Cost of Sales	\$ 6,620	0	6,806	0
Gross profit	\$ 19,419	0	19,519	0
Operating Expenses				
Selling and Marketing	\$ 2,584	0	2,584	0
General and administrative	\$ 372,982	0	1,012,401	0
Research and Development	\$ 0	0	0	0
Total Operating Expenses	\$ 375,566	0	1,014,985	0
Operating Loss	\$ (356,147)	0	(995,466)	0
Other Income (Expenses)				
Interest Income	\$ 41	0	326	0
Interest Expense	\$ 0	0	0	0
Loss on disposal of subsidiaries	\$ 57,112	0	57,112	0
Others, net	\$ 0	0	0	0
Total Other Income (Expense)	\$ 57,153	0	57,438	0
Loss Before Income Tax Expense	\$ (298,994)	0	(938,028)	0
Income Tax Expense, Net of Income Tax Benefit	\$ 0	0	0	0
<b>Net Loss from continuing operations</b>	<b>\$ (298,994)</b>	<b>0</b>	<b>(938,028)</b>	<b>0</b>
Discontinued Operations				
Net Income(Loss) from discontinued operations (Note 12)	\$ 833	(119,674)	(6,318,312)	(816,569)
<b>Total Income(Loss) for the year</b>	<b>\$ (298,161)</b>	<b>(119,674)</b>	<b>(7,256,340)</b>	<b>(816,569)</b>
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustment	\$ (5,153)	68,157	(48,369)	296,568
Comprehensive Income (Loss)	\$ (303,314)	(51,517)	(7,304,709)	(520,001)
Net Loss Per Share Basic and Diluted	\$ (0.00)	0.00	(0.01)	0.00
	74,480,071	66,130,071	74,463,465	66,130,071



Weighted Average  
Number of Shares  
Outstanding Basic and  
Diluted

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

**ANV Security Group, Inc.**  
**Consolidated Statement of Stockholders' Equity**  
**From March 31, 2010 to September 30, 2012**  
**(Expressed in US dollars)**

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Income	Stock Subscription Receivable	Total
Balance March 31, 2010	33,190,071	33,190	1,990,785	(739,448)	191,875	0	1,476,402
Issuance of Common shares for cash	14,190,000	14,190	6,978,254	0			6,992,444
Issuance of Common shares for subsidiary stock acquisition	18,000,000	18,000	8,982,000	0	0	0	9,000,000
Issuance of Common shares for financial consulting service	750,000	750	374,250		0	0	375,000
Net loss for the year	0	0	0	(1,188,203)	0	0	(1,188,203)
Foreign currency translation adjustment	0	0	0	0	88,018	0	88,018
Stock Subscription Receivable	0	0	0	0	0	(250,000)	(250,000)
Balance December 31, 2010	66,130,071	66,130	18,325,289	(1,927,651)	279,893	(250,000)	16,493,661
Net loss for the year	0	0	0	(4,725,778)	0	0	(4,725,778)
Foreign currency translation adjustment	0	0	0	0	331,709	0	331,709
Stock Subscription Receivable	0	0	0	0	0	250,000	250,000
Issuance of shares for acquisitions	8,000,000	8,000	1,592,000	0	0	0	1,600,000
Balance December 31, 2011	74,130,071	74,130	19,917,289	(6,653,429)	611,602	0	13,949,592
Net loss for the year				(7,256,340)			(7,256,340)
Foreign currency translation adjustment					(48,369)		(48,369)
Issuance of shares for cash	370,589	371	104,159				104,530
Cancelled shares from disposal of Shenzhen Factory	(9,550,000)	(9,550)	(2,091,450)				(2,101,000)
Cancelled shares from disposal of 4 subsidiaries	(8,000,000)	(8,000)	(1,592,000)				(1,600,000)
Balance September 30, 2012	56,950,660	56,951	16,337,998	(13,909,769)	563,233	0	3,048,413



## ANV Security Group, Inc.

## Consolidated Statements of Cash Flows

(Expressed in US dollars)

(Unaudited)

For Nine Months ended  
September 30, 2012                      September 30, 2011

**Cash flows from continuing operating activities**

Net loss	\$ (938,028)	\$ 0
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	323,899	0
Provision for doubtful accounts	374	0
Provision for obsolete inventories	0	0
Deferred tax	0	0
Loss on disposal of subsidiaries	0	0
Changes in operating assets and liabilities (net of effects of acquisition):		
Decrease (increase ) in:		
Prepayment and deposit	(15,166)	0
Accounts receivable	0	0
GST Receivable	0	0
Inventories	(24,472)	0
Increase (decrease) in:		
Accounts payable and accrued expenses	(74,401)	0
Income tax payable	0	0
Due to intercompanies	96,542	0
Net Cash (Used in) Provided by Operating Activities	(631,252)	0
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and furniture	(79,534)	0
Capitalized intangible costs	(2,375)	0
Proceeds from disposal of subsidiaries	318,503	0
Net Cash (Used in) Provided by Investing Activities	236,594	0
<b>Cash Flows From Financing Activities</b>		
Proceeds from (repayment to) related parties	31,560	0
Proceeds from common stock subscription receivable		
and issuance	0	0
Net Cash (Used in) Provided by Financing Activities	31,560	0
Effect of Exchange Rate Changes on Cash and Cash		
Equivalents	(121)	0
Net (Decrease) Increase In Cash and Cash Equivalents	(363,219)	0
Net cash flows (used in) provided by discontinued operations	11,130	(2,882,676)

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Cash and Cash Equivalents at Beginning of Period		455,105		4,398,282
Cash and Cash Equivalents at End of Period	\$	103,016	\$	1,515,606
Supplemental Schedule of Cash Flows Disclosures				
Interest paid	\$	0	\$	338
Income taxes paid	\$	0	\$	116,318
Supplemental Schedule of Non-Cash Flows Activities				
Asset purchase through contract payable	\$	0	\$	1,194,521
Disposal of subsidiaries through treasury stock	\$	3,701,000	\$	0
Disposal of subsidiaries through receivable	\$	637,112	\$	0

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

**ANV Security Group, Inc.**

**Notes to Consolidated Financial Statements**

**For the three and nine months ended September 30, 2012**

**(Unaudited)**

**Note 1- Company Information**

ANV Security Group, Inc. (the "Company") is a Nevada company and was incorporated on December 18, 2006 in Vancouver, BC, Canada. The Company's headquarter is in Shenzhen, China.

On June 28, 2009, the Company entered into an agreement and plan of reorganization (the "agreement") by and among Dini Products, Inc. ("DINP"), a Nevada corporation, where each common share of DINP was exchanged on a share-for-share basis for the Company's shares such that after the exchange, DINP has 33,190,071 common shares issued and outstanding, inclusive of 29,860,000 shares issued to the Company's stockholders. Upon the execution of the agreement, the Company changed its name to ANV Security Group, Inc.

The Company specializes in network video surveillance and video alarm service, and conducts new products research & development, software solution and technologies on its current platforms. The Company plans to become a fully integrated developer, designer, manufacturer, marketer, installer and servicer of web-based security systems for residential, commercial and government customers operating in the People's Republic of China.

On February 10, 2011, the Company changed its fiscal year-end from March 31 to December 31 in order to be aligned with the fiscal years of its principal operating subsidiaries in China.

On May 31, 2012, ANV Security Group, Inc. (the "Company") entered into an Equity and Intellectual Property Rights Transfer Agreement (the "EIPRTA") to dispose of all of the shares and related intellectual property of its subsidiary ANV Security Technology (China) Co., Ltd. ("ANV Tech"), by transferring the same to a company owned by its former owner and director. At the same time, the Company sold 100% equity interest in ANV Tech's four subsidiaries back to former owners of these subsidiaries.

After these dispositions, the Company will focused on customer support and backend service for its multi-platform security monitoring and alerts in real-time through the internet, or 3G and 4G networks. Customers are able to use computer, smart phone or any other internet enabled device to visually monitor their locations where ANV devices have been installed.

Due to the legal restrictions of the internet business in PRC, the Company set up a VIE structure to carry out the business in China. After disposed all the assets and liabilities in ANV ASIA, ANV ASIA has no assets other than cash, but it does have a business operation, namely the management of Shen Zhen Global Intelligent Eye ( ANV GIE ), which is incorporated in December 2011, under the laws of the People's Republic of China. ANV GIE has two equity owners: 75% of the equity interest owned by Mr. Wang Weixing, CEO and director of the Company, 25% of the equity interest owned by Mr. Feng Chun, General Manager of the ANV GIE. ANV ASIA carries out that management pursuant to the terms of VIE agreement that it made with ANV GIE and with the equity owners in ANV GIE. Collectively, the agreements provide ANV ASIA exclusive control over the business of ANV GIE. The relationship is one that is generally identified as entrusted management. As a result of that relationship, the financial statements of ANV GIE are consolidated with the Company's financial statements in this report.

At times throughout this Report we will use the term the Company to refer to the three entities mentioned above as a single entity, which is a consolidated entity for financial reporting purposes. References to the business of the Company and the like, however, all refer to the business carried out by ANV GIE, which is the only one of the three consolidated entities that carries on business operations.

ANV GIE was founded in December 2011 under the laws of the People's Republic of China with registered capital of 1 million RMB (US\$158,707). ANV's executive offices and operations are located in Shenzhen, Guangdong Province, in Southern China.

## **Note 2 - Summary of Significant Accounting Policies**

### **a) Basis of Presentation and Going Concern**

These consolidated financial statements are those of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. These financial statements and related notes are presented in accordance with the accounting principles generally accepted in the United States and are expressed in US dollars.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. The Company has incurred \$14 million losses since inception. Further, as of September 30, 2012 the cash resources of the Company were insufficient to meet its current business plan. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

The Company expects to develop its business and thereby increase its revenue. However, the Company would require sufficient capital to be invested into the Company to acquire the properties to begin generating sufficient revenue to cover the monthly expenses of the Company. Until the Company is able to generate revenue, the Company would be required to raise capital through the sale of its stock or through debt financing. Management may raise additional capital through future public or private offerings of the Company's stock or through loans from private investors, although there can be no assurance that it will be able to obtain such financing. The Company's failure to do so could have a material and adverse effect upon it and its shareholders.

To this date the Company has relied on the sale of stock, mainly to its officers and directors, to finance its operations and growth. The Company expects to continue to fund the Company through debt and securities sales and issuances until the Company generates enough revenues through the operations. These transactions will initially be through related parties, such as the Company's officers and directors.



**b) Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (all subsidiaries are 100% owned by the Company): ANV Security Group (Asia) Co., Ltd. (ANV ASIA), and Shenzhen Intelligent Eye Technology Co., Ltd.. The Company consolidates its subsidiaries in which it has over 50% controlling interests. All significant intercompany accounts, transactions and cash flows have been eliminated on consolidation.

**c) Use of Estimates**

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant estimates

made by management include: provision for product returns, allowance for doubtful accounts, inventory provision, useful lives of amortizable intangible assets, and provisions for income taxes and realizability of deferred tax assets. On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's consolidated financial statements could be materially impacted.

**d) Reclassification**

Certain account reclassifications have been made to the financial statements of the prior year in order to conform to classifications used in the current year. These changes have no impact on previously stated financial statements of the Company.e) **Comprehensive Income (Loss)**

In accordance with ASC 220-10-55, comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. The Company's components of comprehensive income for the nine months ended September 30, 2012 and 2011 were net loss and the foreign currency translation adjustment.

**f) Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased.

**g) Accounts Receivable**

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

**h) Inventories**

Inventories are stated at the lower of cost or replacement cost with respect to raw materials and the lower of cost and net realizable value with respect to finished goods and work in progress. Cost of work in progress and finished goods is generally determined on weighted average cost basis and includes direct material, direct labor and overhead. Net realizable value represents the anticipated selling price less estimated costs of completion and distribution.

**i) GST Receivable**

GST receivable represents tax credit that the Canadian subsidiary receives when the subsidiary pays GST tax for its normal operations. As of September 30, 2012, the Company had a GST tax receivable of nil.

**j) Prepayment and Deposits**

Prepayment and deposits represent cash paid in advance for purchasing of inventory items from suppliers and the amounts as of September 30, 2012 and December 31, 2011 were \$15,301 and \$1,399,787 respectively.

**k) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Significant additions and improvements are capitalized, while repairs and maintenance are charged to expenses as incurred. Equipment purchased for specific research and development projects with no alternative uses are expensed. Assets under construction are not depreciated until construction is completed and the assets

are ready for their intended use. Gains and losses from the disposal of property, plant and equipment are included in operating income (loss).

Depreciation of property, plant and equipment generally is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Production equipment	5-10 years
Electronic equipment	3-5 years
Vehicle	5-10 years
Leasehold improvement	3-5 years

#### **l) Impairment of Long-Lived Assets**

Long-lived assets including intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows. There were no impairment adjustments to the carrying value of the long-lived assets for the nine months ended September 30, 2012 and the year ended December 31, 2011.

#### **m) Software Development Costs**

The Company accounts for software development costs in accordance with ASC 985-20, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. Costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in general and administrative expenses. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of 5 years. The Company performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

#### **n) Financial Instruments and Concentration of Credit Risks**

##### **Fair Value of Financial Instruments**

Assets and liabilities subject to fair value measurements are required to be disclosed within a specified fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following categories based on the lowest level input used that is significant to a particular fair value measurement:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets and liabilities in markets that are not active.

Level 3 Unobservable inputs for the asset or liability.

As of September 30, 2012 and December 31, 2011, the Company did not have any Level 2 and 3 financial assets. As of September 30, 2012 and December 31, 2011, the Company did not have financial liabilities measured at fair value on a recurring basis.

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, short-term loans payable, accounts payable and accrued liabilities, and due from related parties approximate their fair value because of their short term nature. The fair values of loans payable and long-term payable for acquisition of assets are based on the estimated discounted value of future contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

### **Exchange Rate Risks**

The Company operates in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between US dollars and the Chinese RMB.

### **Concentration of Credit Risks**

Financial instruments that potentially subject the Company to concentration of credit risks consist primarily of cash and cash equivalents, accounts receivable, and short-term investments, the balances of which are stated on the consolidated balance sheets which represents the Company's maximum exposure. The Company places its cash and cash equivalents in high credit quality financial institutions. Concentration of credit risks with respect to accounts receivables is linked to the concentration of revenue. To manage credit risk, the Company performs ongoing credit evaluations of customers' financial condition. The Company does not require collateral or other security to support financial instruments subject to credit risks.

### **o) Revenue Recognition**

The Company recognizes revenue in accordance with ASC 605, which requires that revenue be recognized when it is earned and either realized or realizable. In general, the Company generates revenue from the sales of surveillance and safety products and systems and revenue is recognized when the following criteria are met:

- (i) Persuasive evidence of an arrangement exists The Company requires evidence of an agreement with a customer specifying the terms and conditions of the products to be delivered typically in the form of a signed contract or purchase order;
- (ii) Delivery has occurred For product sales, delivery generally takes place when title to the product is transferred, which generally take place when products are shipped to or accepted by the customer, depending on the terms of the contract;
- (iii) The fee is fixed or determinable Fees are fixed or determinable based on the contract or purchase order terms; and

(iv) Collection is probable The Company performs a credit review of all customers with significant transactions to determine whether a customer is creditworthy and collection is probable.

**p) Income Taxes**

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to remain unrealized. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

The Company adopted the guidance issued by the Financial Accounting Standards Board ( FASB ) Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), codified in the FASB Accounting Standards Codification ( ASC ) 740, Income Taxes. ASC 740 prescribes a more-likely than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on the recognition and de-recognition of income tax assets and liabilities; classification of current and deferred income tax assets and liabilities accounting for interest and penalties associated with tax positions; accounting for income taxes in interim periods and income tax disclosures.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The tax benefits recognized from such a position are measured based on the amount that is greater than 50% likely of being realized upon settlement. Liabilities associated with uncertain tax positions are classified as long-term unless expected to be paid within one year. Interest and penalties related to uncertain tax positions, if any, are recorded in the provision for income taxes and classified with the related liability on the consolidated balance sheet.

The Company has reviewed the tax positions taken, or to be taken, in its tax return for all tax years currently open to examination by a taxing authority in accordance with the recognition and measurement standards of ASC 740. The Company is not under examination by any authority for income tax purposes and has not applied any income tax filing extension.

The Company's taxing jurisdiction is U.S. ANV Security Group (Asia) Co., Ltd.'s tax jurisdiction is Hong Kong. Shenzhen Intelligent Eye Technology Co., Ltd.'s taxing jurisdiction is China.

#### **q) Segments**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company operates exclusively in the network video surveillance sector. The Company's business is considered as operating in one segment based upon the Company's organizational structure, the way in which the operation is managed and evaluated, the availability of separate financial results and materiality considerations.

#### **r) Foreign Exchange Translation**

The Company's financial information is presented in US dollars. The functional currencies of the Company and its subsidiaries include the United States dollar ( US\$ ), Hong Kong dollar, Canadian dollar and Renminbi ( RMB ).

The financial statements of the Company have been translated into U.S. dollars in accordance with ASC 830-30 *Translation of Financial Statements* . The financial information is first prepared in functional currencies and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation are included as a component of accumulated other comprehensive income in shareholders' equity.



The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

**s) Basic and Diluted Net Income (Loss) Per Share**

The Company computes earnings per share ( EPS ) in accordance with ASC 260 Earnings per Share ( ASC 260 ), and SEC Staff Accounting Bulletin No. 98 ( SAB 98 ). ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the year. The computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The Company's common stock equivalents as at September 30, 2012 and 2011 include its outstanding stock options granted.

#### t) Stock-based Compensation

Compensation expense for costs related to all share-based payments, including grants of stock options, is recognized through a fair-value based method. The Company uses the Black-Scholes option-pricing model to determine the fair value for the awards. The value of the portion of the award that is ultimately expected to vest is recognized on a straight-line basis as expense over the requisite service period in the statement of income.

#### u) Recent Accounting Pronouncements

##### New Accounting Standards

The company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on its results of operations, financial position or cash flows.

#### Note 3- Inventory

Inventories consisted of the following:

	<u>September 30, 2012</u>		<u>December 31, 2011</u>
Raw materials	-	\$	1,405,438
Work-in-progress	-		2,112,771
Finished goods	24,374		2,401,635
Less: provision	-		(667,066)
	24,374	\$	5,252,778

For the nine months ended September 30, 2012 and 2011, the Company recorded an inventory valuation provision for lower of net realizable value or cost of \$ nil and \$59,695 in the Consolidated Statements of Operations and Comprehensive Income, respectively.

**Note 4- Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Production equipment	\$ -	\$ 242,468
Electronic equipment	9,198	212,349
Vehicle	70,017	240,336
Leasehold improvement	-	191,388
	79,215	886,541
Less: Accumulated depreciation	(11,632)	(249,754)
	\$ 67,583	\$ 636,787

Depreciation expenses for the nine months ended September 30, 2012 and 2011 were \$3,230 and \$207,055 respectively.

**Note 5- Goodwill and other Intangible Assets****a) Goodwill**

The following table summarizes the activities in the Company's goodwill account during the nine months ended September 30, 2012 and the year ended December 31, 2011:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Beginning balance	\$ 4,197,256	\$ 6,274,629
Goodwill acquired during the year:		
Jinan Hualutong	-	46,099
Shijiazhuang Huilin	-	46,099
Taian Comins	-	44,601
Shenyang Huasheng	-	44,602
		6,456,030
Goodwill disposed during the year:		
Flybit	-	(2,258,774)
Angesi (Shenzhen factory)	4,015,855	-
Jinan Hualutong	46,099	-
Shijiazhuang Huilin	46,099	-
Taian Comins	44,601	-
Shenyang Huasheng	44,602	-
Ending balance	\$ -	\$ 4,197,256

**b) Intangible assets**

Intangible assets are summarized by classifications as follows:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Software	\$ 2,028,564	\$ 2,133,376
Incorporation cost	55,319	55,187
	2,083,883	2,188,563
Less: Accumulated amortization	(802,835)	(495,950)
	\$ 1,281,048	\$ 1,692,613

Amortization expenses for the nine months ended September 30, 2012 and 2011 were \$215,328 and \$195,901 respectively.

**Note 6- Accounts Payable and Accrued Expenses**

As at September 30, 2012 accounts payable and accrued expenses amounted \$51,630 representing trade payables to suppliers and accrued expenses incurred in operations. As at December 31, 2011, accounts payable and accrued expenses amounted \$6,964,264.

**Note 7- Related Party Transactions**

All inter-company accounts, transactions and cash flows have been eliminated on consolidation. As at September 30, 2012 and December 31, 2011, amounts due from/to related parties as below:

The Company has amounts due from individual shareholders in amount of \$144,931 and 177,683 respectively.

The Company owes individual shareholders in amount of \$nil and \$100,801 respectively.

**Note 8- Capital Stock**

As of September 30, 2012, and December 31, 2011, the amount of voting common shares issued and outstanding are 56,950,660 and 74,130,071, respectively.

**Note 9- Stock Options**

On October 1, 2008, the board of directors adopted the Company's Stock Option Plan. The Company has reserved 1,000,000 shares of common stock for issuance upon exercise of options granted from time to time under the stock option plan. The stock option plan is intended to assist the Company in securing and retaining key employees, directors and consultants by allowing them to participate in the Company's ownership and growth through the grant of incentive and non-qualified options. Under the stock option plan, the Company may grant incentive stock options only to key employees and employee directors, or the Company may grant non-qualified options to employees, officers, directors and consultants. The stock option plan is currently administered by the Company's board of directors. Subject to the provisions of the stock option plan, the board will determine who shall receive options, the number of shares of common stock that may be purchased under the options. As at September 30, 2012, the Company has granted 140,000 shares options.

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2011	140,000	0.21
Granted	-	-
Options outstanding at September 30, 2012	140,000	\$ 0.21

Range of Exercise Price	Number Outstanding	Options Outstanding	Weighted Average Exercise Price
		Weighted Average Remaining Contractual Life	
\$ 0.25	40,000	1.17 years	\$ 0.25
\$ 0.20	100,000	1.33 years	\$ 0.20

Number Outstanding	Options Exercisable Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
140,000	1.29 years	\$ 0.21

**Note 10- Income Taxes**

Shenzhen Intelligent Eye Technology Co., Ltd. is subject to income taxes in China on their taxable income as reported in their statutory accounts at a tax rate in accordance with the relevant income tax laws.

ANV Security Group, Inc. is a U.S. company and subject to taxes in US.

On March 16, 2007, The National People's Congress of China passed The Law of the People's Republic of China on Enterprise Income Tax (the Enterprise Income Tax Law ). The Enterprise Income Tax Law became effective on January 1, 2008. Under the new law, both domestic companies and foreign invested enterprises are subject to a unified income tax rate of 25% starting from 2008.

The Company has disposed its business on production, so the remaining business is operated by a simple company structure-Only ANV Group, ANV Asia and Shenzhen GIE are included in the continuing operation in consolidated financial statements. At the present, there is no temporary difference that gives rise to the deferred tax assets or liabilities, and the income tax expense or benefit as well. Moreover, there is no comparable data in continuing operation in the same period last year. The deferred tax assets or liabilities are as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Deferred tax assets / (liabilities):		
Provision for bad debts	\$ -	\$ 0
Inventories	0	0
Property, plant and equipment	0	0
Losses carry forward	191,109	0
Total deferred tax assets	191,109	0
Less: Valuation allowance	(191,109)	0
Net deferred tax assets	\$ 0	\$ 0

The valuation allowance is reviewed periodically. When circumstance changes and this causes a change in management's judgment about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

All income and taxes are attributable to foreign operations. A reconciliation of the federal statutory income tax, at the statutory rate of 35% to the Company's effective income tax rate, for the nine months ended September 30, 2012 and 2011 are as follows:

	<u>Nine months ended</u>	<u>Nine months ended</u>
	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Loss from operations before taxes	\$ (938,028)	\$ 0
Statutory tax rate	35%	35%
Income tax expense at statutory tax rate	(328,310)	0
Foreign tax rate differential	137,210	0
Expenses not deductible (recoverable) for income tax purpose	0	0
Change in valuation allowance and others	191,109	0
Income tax expense (benefit)	\$ 0	\$ 0



**Note 11 Concentrations and Risks**

100% of the Company's revenues for the nine months ended September 30, 2012 and 2011, respectively, were derived from customers located in China mainland.

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Renminbi, which was tied to the US Dollar and is now tied to a basket of currencies of China's largest trading partners, is not a freely convertible currency. The appreciation of the Renminbi against the US Dollar would result in an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the Renminbi against the US Dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Company and a foreign currency loss included in comprehensive income. As at September 30, 2012, approximately US\$61,683 of the cash and cash equivalents (December 31, 2011: US\$802,207) were held in Renminbi.

**Note- 12 Discontinued Operations**

As of May 31, 2012, the Company entered into an Equity and Intellectual Property Rights Transfer Agreement (the EIPRTA ) to dispose of all of the shares and related intellectual property of its subsidiary ANV Security Technology (China) Co., Ltd. ( ANV Tech ), by transferring the same to a company owned by its former owner and director, for five million RMB (approximately \$800,000) payable in three installments; (i) 20% on Closing, and 40% on each of December 31, 2012 and 2013 and (B) the return to the Company of 9,529,411 shares from former owner of the Company's common stock. At the same time, the Company sold 100% equity interest in ANV Tech's four subsidiaries back to former owners of these subsidiaries by return to the Company of 8,000,000 common shares from former owners of four subsidiaries.

The operating results of discontinued operations are as follows:

	For Three Months Ended		For Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues	\$ 0	\$ 7,450,210	\$ 6,409,306	\$ 20,524,242
Cost of Sales	0	5,688,389	5,293,803	16,233,508
Gross profit	0	1,761,821	1,115,503	4,290,734
Operating Expenses				
Selling and Marketing	0	613,720	767,117	1,502,611
General and Administrative	(1,183)	1,036,380	882,725	3,029,157
Research and Development	0	347,621	382,893	869,224
Total Operating Expenses	(1,183)	1,997,721	2,032,735	5,400,992
Operating Income (Loss)	1,183	(235,900)	(917,232)	(1,110,258)
Other Income (Expenses)				
Interest Income	0	540	59,755	2,016
Interest Expense	0			