

ANV SECURITY GROUP INC.  
Form 10-Q/A  
October 19, 2012

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

**FORM 10-Q /A**

Amendment No. 1

(Mark One)

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

**For the quarterly period ended June 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 <b>(State or other jurisdiction of incorporation or organization)</b>	13-3089537 <b>(I.R.S. Employer Identification No.)</b>
8th Floor, Block B, R&D Building, Tsinghua Hi-Tech Park, North Area of Shenzhen Hi-Tech & Industrial Park, Nanshan District, Shenzhen, China <b>(Address of principal executive offices)</b>	518057 <b>(Zip Code)</b>

0086-755-8665-6436

**(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

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As of August 10, 2012, 74,480,071 shares of common stock, par value \$0.001 per share, were outstanding, of which 10,545,461 shares were held by non-affiliates.

**EXPLANATORY NOTE - AMENDMENT**

The sole purpose of this Amendment to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2012 (the "10-Q"), is to provide business updates per SEC comment letter dated on October 22, 2012.

No other changes have been made to the 10-Q, and this Amendment has not been updated to reflect events occurring subsequent to the filing of the 10-Q.

**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)**

	June 30 , 2012 (Unaudited)	As of	December 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 239,979	\$	1,388,743
Accounts Receivable, net	1,622,872		4,860,072
GST Receivable	0		11,671
Inventories, net (Note 3)	28,627		5,252,778
Prepayments and Deposits	5,304		1,399,787
Due from Shareholders	144,841		177,683
Total Current Assets	2,041,623		13,090,734
Property, Plant and Equipment , net (Note 4)	6,592		636,787
Intangible Assets (Note 5)	1,384,393		1,692,613
Goodwill (Note 5)	0		4,197,256
Deferred Tax Assets (Note 10)	0		1,397,267
Total Assets	\$ 3,432,608	\$	21,014,657
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts Payable and Accrued Expenses (Note 6)	\$ 85,411	\$	6,964,264
Due to Related Parties	0		100,801
Total Current Liabilities	85,411		7,065,065
Total Liabilities	85,411		7,065,065
Commitments and Contingencies			
Stockholders' Equity			
Common Stock ( \$0.001 par value, 100,000,000 shares authorized, 74,480,071 and 74,130,071 shares issued and outstanding, respectively)	74,480		74,130
Additional Paid-in Capital	20,016,939		19,917,289
Treasury stock (17,550,000 shares)	(3,701,000)		0
Deficit Accumulated	(13,611,608)		(6,653,429)

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Accumulated Other Comprehensive Income		568,386		611,602
Total Stockholders' Equity		3,347,197		13,949,592
Total Liabilities and Stockholders' Equity	\$	3,432,608	\$	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 Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Continuing Operations				
Revenues	\$ 286	\$ 0	\$ 286	\$ 0
Cost of Sales	\$ 186	\$ 0	\$ 186	\$ 0
Gross profit	100	0	100	0
Operating Expenses				
Selling and Marketing	\$ 0	\$ 0	\$ 0	\$ 0
General and Administrative	\$ 526,445	\$ 0	\$ 639,419	\$ 0
Research and Development	0	\$ 0	0	\$ 0
Total Operating Expenses	\$ 526,445	\$ 0	\$ 639,419	\$ 0
Operating Loss	\$ (526,345)	\$ 0	\$ (639,319)	\$ 0
Other Income (Expenses)				
Interest Income	\$ 134	\$ 0	\$ 285	\$ 0
Interest Expense	\$ 0	\$ 0	\$ 0	\$ 0
Loss on disposal of subsidiaries	\$ 0	\$ 0	\$ 0	\$ 0
Others, net	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Income (Expense)	\$ 134	\$ 0	\$ 285	\$ 0
Loss Before Income Tax Expense	\$ (526,211)	\$ 0	\$ (639,034)	\$ 0
Income Tax Expense, Net of Income Tax Benefit	\$ 0	\$ 0	\$ 0	\$ 0
Net Loss from continuing operations	\$ (526,211)	\$ 0	\$ (639,034)	\$ 0
Discontinued Operations				
Net Income(Loss) from discontinued operations (Note 12)	\$ (5,323,043)	\$ (329,711)	\$ (6,319,145)	\$ (696,895)
Total Income(Loss) for the year	\$ (5,849,254)	\$ (329,711)	\$ (6,958,179)	\$ (696,895)
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustment	\$ (52,864)	\$ 120,411	\$ (43,216)	\$ 228,411
Comprehensive Income (Loss)	\$ (5,902,118)	\$ (209,300)	\$ (7,001,395)	\$ (468,484)

Net Loss Per Share and Diluted	Basic	\$	(0.01)	\$	0.00	\$	(0.01)	\$	0.00
Weighted Average Number of Shares Outstanding and Diluted	Basic		74,480,071		66,130,071		74,455,071		66,130,071

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

## ANV Security Group, Inc.

## Consolidated Statements of Cash Flows

(Expressed in US dollars)

(Unaudited)

	For Six Months ended	
	June 30, 2012	June 30, 2011
<b>Cash flows from continuing operating activities</b>		
Net loss	\$ (639,034)	\$ 0
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	208,298	0
Provision for doubtful accounts	205	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	(5,053)	0
Accounts receivable	0	0
GST Receivable	0	0
Inventories	(28,715)	0
Increase (decrease) in:		
Accounts payable and accrued expenses	(40,649)	0
Income tax payable	0	0
Due to intercompanies	96,967	0
Net Cash (Used in) Provided by Operating Activities	(407,981)	0
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and furniture	(6,857)	0
Capitalized intangible costs	(2,379)	0
Disposal of subsidiaries	159,210	0
Net Cash (Used in) Provided by Investing Activities	149,974	0
<b>Cash Flows From Financing Activities</b>		
Proceeds from (repayment to) related parties	31,552	0
Proceeds from common stock subscription receivable		
and issuance	0	0
Net Cash (Used in) Provided by Financing Activities	31,552	0
Effect of Exchange Rate Changes on Cash and Cash Equivalents	199	0
Net (Decrease) Increase In Cash and Cash Equivalents	(226,256)	0
Net cash flows (used in) provided by discontinued operations	11,130	(2,475,307)
Cash and Cash Equivalents at Beginning of Period	455,105	4,398,282
Cash and Cash Equivalents at End of Period	\$ 239,979	\$ 1,922,975
Supplemental Schedule of Cash Flows Disclosures		
Interest paid	\$ 0	\$ 338

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Income taxes paid	\$	0	\$	116,318
<b>Supplemental Schedule of Non-Cash Flows Activities</b>				
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 six months ended June 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.

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

**a) Basis of Presentation**

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.

**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 Video Alarm Service Inc. 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 three months ended June 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 labour 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 June 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 June 30, 2012 and December 31, 2011 were \$5,304 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 six months ended June 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 June 30, 2012 and December 31, 2011, the Company did not have any Level 2 and 3 financial assets. As of June 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 Video Alarm Service Inc.'s taxing jurisdiction is Canada. ANV Security Group (Asia) Co., Ltd.'s tax jurisdiction is Hong Kong. ANV Security Technology (Taian) Co., Ltd., and 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 June 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>June 30, 2012</u>		<u>December 31, 2011</u>
Raw materials	-	\$	1,405,438
Work-in-progress	-		2,112,771
Finished goods	28,627		2,401,635
Less: provision	-		(667,066)
	28,627	\$	5,252,778

For the six months ended June 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>June 30, 2012</u>		<u>December 31, 2011</u>
Production equipment	\$ -	\$	242,468
Electronic equipment	6,836		212,349
Vehicle			240,336
Leasehold improvement	-		191,388
	6,836		886,541
Less: Accumulated depreciation	(244)		(249,754)
	\$ 6,592	\$	636,787

Depreciation expenses for the six months ended June 30, 2012 and 2011 were \$244 and \$117,241 respectively.

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

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

	<u>June 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>June 30, 2012</u>	<u>December 31, 2011</u>
Software	\$ 2,027,316	\$ 2,133,376
Incorporation cost	55,285	55,187
	2,082,601	2,188,563
Less: Accumulated amortization	(698,208)	(495,950)
	\$ 1,384,393	\$ 1,692,613

Amortization expenses for the six months ended June 30, 2012 and 2011 were \$215,328 and \$145,131 respectively.

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

As at June 30, 2012 accounts payable and accrued expenses amounted \$85,411 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 June 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 \$144,841 and 177,683 respectively.

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

### Note 8- Capital Stock

As of June 30, 2012, and December 31, 2011, the amount of voting common shares issued and outstanding are 74,480,071 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 June 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 June 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	1.42 years		\$ 0.25
\$ 0.20	100,000	1.58 years		\$ 0.20

Number Outstanding	Options Exercisable Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
140,000	1.54 years	\$ 0.21

**Note 10- Income Taxes**

ANV Security Technology (Taian) Co., Ltd. and Shenzhen Intelligent Eye Technology Co., Ltd. are 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. and ANV Video Alarm Service Inc. are U.S. and Canadian companies, respectively, and are subject to taxes in those jurisdictions.

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 structured its business and operations on an international basis. The Company's history is that they have also been involved in a number of business combinations. As a result the Company could be involved in various investigations, claims and tax reviews that arise in the ordinary course of business activities. The tax effect of temporary differences that give rise to significant components of the deferred tax assets are as follows:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Deferred tax assets / (liabilities):		
Provision for bad debts	\$ -	\$ 570,343
Inventories	-7	34,897
Property, plant and equipment	-0	125,298
Losses carryforwards	2,641,136	453,116
Total deferred tax assets	2,641,136	1,183,654
Less: Valuation allowance	(2,641,136)	(435,212)
Net deferred tax assets	\$ -	\$ 748,442

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.

The Company has non-capital losses carried forward of approximately \$1,830,233 in Canada, expiring through year 2018. The Company also has non-capital losses carried forward of approximately \$450,000 in the US expiring through year 2031. Deductibility of the losses and period of expiration is subject to the normal review by taxation authorities.

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 three months ended June 30, 2012 and 2011 are as follows:

	<u>Three months ended</u>	<u>Three months ended</u>
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Loss from operations before taxes	\$ (7,201,651)	\$ (722,8083)
Statutory tax rate	35%	35%
Income tax expense at statutory tax rate	(2,520,578)	(252,983)
Foreign tax rate differential	1,221,353	127,100
	1,053,099	12,857

Expenses not deductible (recoverable) for  
income tax purpose

Change in valuation allowance and others	21,869		87,113
Income tax expense (benefit)	\$ (224,257)	\$	(25,913)

Undistributed loss of the Company's non-US subsidiaries amounted to approximately \$13,180,824 and \$6,203,430 as of June 30, 2012 and December 31, 2011, respectively. The Company has not provided any additional U.S. federal or state income taxes or foreign withholding taxes on the undistributed earnings as such earnings have been indefinitely reinvested in the business as defined in ASC Topic 740. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable because of the complexities associated with its hypothetical calculation.

**Note 11- Concentrations & Risks**

100% of the Company's revenues for the three months ended June 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 June 30, 2012, approximately US\$66,696 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 9,550,000 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 Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues	\$ 2,281,487	\$ 8,154,507	\$ 6,409,306	\$ 13,074,032
Cost of Sales	1,880,626	6,631,074	5,293,803	10,545,119
Gross profit	400,861	1,523,433	1,115,503	2,528,913
Operating Expenses				
Selling and Marketing	250,711	475,646	767,117	888,891
General and Administrative	(274,532)	1,119,427	883,908	1,992,777
Research and Development	76,301	313,539	382,893	521,603
Total Operating Expenses	52,480	1,908,612	2,033,918	3,403,271



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Operating Income (Loss)	348,381	(385,179)	(918,415)	(874,358)
Other Income (Expenses)				
Interest Income	44,822	1,107	59,755	1,476
Interest Expense	(20)	(343)	(30,249)	(896)
Loss on disposal of subsidiaries	(5,846,100)	0	(5,846,100)	0
Others, net	180,907	29,610	191,607	150,970
Total Other Income (Expense)	(5,620,391)	30,374	(5,624,987)	151,550
Income (Loss) Before Income				
Tax Expense	(5,272,010)	(354,805)	(6,543,402)	(722,808)
Income Tax Expense (Recovery),				
Net of Income Tax Benefit	51,033	(25,094)	(224,257)	(25,913)
Net Income(Loss) from				
discontinued operations	\$ (5,323,043)	\$ (329,711)	\$ (6,319,145)	\$ (696,895)

**Note 13- Commitments and Contingencies**

**a) Lease Commitments**

The Company leases its headquarter office in Shenzhen, China. The lease commenced on January 14, 2011 and expires on January 13, 2014. Its total monthly rental fee is RMB 97,759 (US\$15,531).

The Company leases its another office in Shenzhen, China. The lease expires on January 20, 2013. Its total monthly rental fee is RMB 7,590 (US\$1200).

	<u>RMB</u>	<u>USD</u>
Within 1 year	1,249,008	197,475
Within 1-2 years	586,554	92,737
Thereafter	-	-

**b) Litigation**

As at June 30, 2012, there were no actions, suits, proceedings or claims pending against the Company, which if adversely determined, would have a material adverse effect on the financial condition of the Company.

**Note 14- Subsequent Events**

The Company has performed an evaluation of subsequent events in accordance with ASC Topic 855 and the Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**ITEM 2. MANGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward Looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company that is based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

## OVERVIEW

ANV Security Group, Inc. and its subsidiaries (the Company or ANVS ) is specialized in new product research & development, software solutions, technologies for network video surveillance and video alarm service platforms.

ANVS has developed products of IP camera and digital video server ( DVS ), as well as NVR, DVR, CCTV camera, etc. It has also developed the first automatic video alarm platform in the world: [www.usci8.com](http://www.usci8.com). A patent for this platform was officially approved by the US Patent and Trademark Office ( USPT ) on October 22, 2009 with patent number US2009/0265747A1. This platform performs instant notification to the owner via SMS, e-mail, telephone or cellular phone when an alarm is triggered worldwide in any time zone and captures the event images in user accessible video surveillance servers.

## Business Update

### Disposition of ANV Trading (HK) Limited (formerly Flybit International Ltd.)

On January 19, 2010, Mr. Wilson Wang acting as legal representative of ANV Security Group ( Asia) Co. Ltd. entered into an agreement (the Flybit Agreement ) to acquire all of the issued and outstanding stock of Flybit International, Ltd., a Hong Kong corporation, from its sole owner Zhaohui Zeng for three million shares of the Company s common stock and \$720,000 in cash. The closing under the Flybit Agreement was held on February 1, 2010 with effective date of June 1, 2010. Flybit is in developing and marketing mobile video security system used on vehicles and it is a certified OEM manufacturer for Panasonic in mobile video systems. The Company intended to utilize the assets of these companies to expand its manufacturing base and increase its retail operations in China.

From June 2010 to December 2011, the sales of the mobile video security system didn t reach the targeted levels and the Company has incurred approximately RMB10 million (USD\$1.59 million) losses on this product line. Due to the down turn of the market for mobile video security systems, increased competition and lower margins, trends which management anticipates will continue, the Company initiated a strategic is to move back to providing automatic video alarm platform security service by internet. The board of directors decided to stop this product line and sold the inventory and intangible assets to an unrelated party for total cash consideration of RMB 10 Million (USD \$1.59 million). The Company has received first payment of RMB 3.34 million (US\$530K) in December 2011, the remaining RMB 6.66 million (US\$1.06 million) will be received by two equal payments at Dec 31, 2012 and Dec 31, 2013. At the same time, the Company decided to dissolve the ANV Trading (HK) Limited.

### Disposition of ANV Security Technology (China) Co., Ltd. ( ANV Tech )

On December 24, 2009, ANV Security Group, Inc. (the Company ) entered into an agreement (the Initial Angesi Agreement ) to acquire all of the issued and outstanding stock of Shenzhen Angesi Technology, Co. ( Angesi ) which later changed its name to ANV Security Technology (China) Co. Ltd. and certain affiliated entities for 32 million shares from its owners. Due to the requirements for certain government approvals and the extent of the parties mutual due diligence the closing could not be held until September 30, 2010. At the closing, under a revised agreement (the Revised Angesi Agreement ), the Company acquired Angesi s manufacturing facility and operation, but not its affiliated marketing companies, for 15 million shares of common stock. The revised agreement provided, among other things, that the former shareholders of Angesi may be required to return a portion of those shares in the event certain earnings and performance targets are not met.

As of 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 our director, Tingyi Li, 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 7,350,000 shares from Tingyi Li and 2,200,000 shares from former owner Zhengwu Pu of the Company s common stock. The price payable to the Company is subject to adjustment for certain events set forth in the Transfer Agreement and the transaction is subject to various government approvals in China.

The Company elected to dispose of ANV Tech which owns several manufacturing facilities acquired in 2010, because of declining margins in the technology manufacturing business in China and the large amount of capital that had to be dedicated to manufacturing operations. Management believes that the disposal of ANV Tech will free resources to allow the Company to develop its core business of residential, commercial and government security and monitoring systems, primarily in China. Management also believes that the Company will be able to secure the products it needs for its core business from other manufacturers at reasonable prices.

#### **Disposition of ANV Tech s four subsidiaries**

In the second quarter ended June 30, 2011, the Company acquired four companies from different unaffiliated persons in arms length transactions. The principals of the acquired companies received 2 million shares of our common stock . The acquired companies are (i) Jinan Hualutong Technology Co., Ltd., an electronic security product marketer located in Jinan, Shandong, China; (ii) Shijiazhuang Huilin Technology Co., Ltd., an electronic security product marketer located in Shijiazhuang, Hebei, China; (iii) TaianComins Electronic Technology Co., Ltd., an electronic security product marketer and installer located in Taian, Shandong, China; and (iv) Shenyang HuashengShiji Trading Co., Ltd., an electronic security product marketer located in Shenyang, Liaoning, China.

As of May 31, 2012, the Company elected to sell 100% equity interest in ANV Tech s four subsidiaries back to same former owners of these subsidiaries (unaffiliated persons in arms length transactions) by return to the Company of 8,000,000 common shares from former owners of four subsidiaries.

The Company elected to dispose of ANV Tech s four subsidiaries which acquired in 2010, because of declining margins in the technology manufacturing business in China and the large amount of capital that had to be dedicated to manufacturing operations. Management believes that the disposal of ANV tech s four subsidiaries will free resources to allow the Company to develop its core business of residential, commercial and government security and monitoring systems, primarily in China. Management also believes that the Company will be able to secure the products it needs for its core business from other manufacturers at reasonable prices.

**Organizational Charts before dispositions**

## **Organizational Charts after dispositions**

### **New Business Structure after Dispositions**

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.

### **Shareholder approval for the disposal of ANV Tech**

The Company is required to obtain shareholder approval for the sale of substantially all of the Company's assets under Nevada corporate law. As disclosed in the Form 8-K filed July 25, 2012, the board of directors intends to obtain shareholder ratification of the disposal of ANV Tech and its four subsidiaries. 64.98% of the shares are owned by Company insiders and obtaining shareholder's ratification is certain. We intend to initiate the ratification process in the Fourth quarter of Fiscal 2012.

### **New business development**

As discussed above, since the Company acquired ANV trading, ANV Tech and ANV Tech's four subsidiaries in 2010, the Company incurred \$1.17 million losses for the nine months ended December 31, 2010, \$4.73 million losses for the year ended December 31, 2011 and \$6.32 million losses for the 6 months ended June 30, 2012. Management believes that the disposal of ANV trading, ANV tech and its four subsidiaries will free resources to allow the Company to develop its core business of residential, commercial and government security and monitoring systems, primarily in China. Management also believes that the Company will be able to secure the products it needs for its core business from other manufacturers at reasonable prices.

The consideration received from the disposition will be used to develop and improve the service platform. There will be uncertainties resulting from the dispositions, but the Company no need to put significant capital resource into manufacture operation, as a result, these dispositions will have positive impact on the Company's results of operations and liquidity and capital resources.

In September 2012, the Company has entered into a new strategic long term contract with Qingdao Fu Yuan Yun Tong

Investment Management Co., Ltd, one of China's leading investment management companies. As per the partnership, ANV GIE will install remotely controlled and centralized video systems in their hundreds of franchise stores across the country.

Qingdao Fu Yuan Yun Tong Investment Management Co., Ltd., established in August 2005, is a private enterprise engaged in financial intermediation services for financial technology patents. After years of operation & development, Fu Yuan Yun Tong Investment Management Company has opened branches in 22 provinces, cities and autonomous regions in China and more than 400 franchises. Fu Yuan is planning to become a listed company within five years.

As of September 2012, the Company does not have relationships with the entities we have disposed of. We don't have agreements for the purchase of products from these entities. We may purchase the product from those entities in the

future if these entities can offer more cost-effective products compare to other suppliers.

ANV GIE's key customers will fall within five primary markets including large scale enterprises, small and medium businesses, residential, automotive and personal security & monitoring. ANV GIE allows franchises or business owners to monitor employee and shop activity at a single or multiple locations including fire alarms, gas leaks, break-ins or natural events. Through innovative technology the benefit of the multi-platform monitoring service offered by ANV GIE equates to cost savings and peace of mind for customers. No other service offers the robust versatility and innovative technology developed by ANVS.

## **RESULTS OF OPERATIONS**

### **Revenues**

Our revenues are primarily generated from sales of surveillance and safety products. Revenues was \$286 for the three months ended June 30, 2012, and \$nil for the same period last year. The Company disposed its manufacturing business in this quarter to develop its services business, as a result, the continuing revenue is only \$286 for the three months ended June 30, 2012.

**Cost of goods sold**

Cost of goods sold is primarily comprised of the costs of our raw materials, labor and overhead. Cost of goods sold was \$186 for the three months ended June 30, 2012, and \$nil for the same period last year. As discussed above, the cost of goods sold only including the continuing operations for the three months ended June 30, 2012.

**Operating expenses**

Operating expenses was \$526,335 for the three months ended June 30, 2012 compared to \$nil for the same period last year.

**Operation loss**

Operating loss was \$526,345 for the three months ended June 30, 2012 compared to \$nil for the same period last year.

**Loss from discontinued operations**

Loss from discontinued operations was \$(5,323,043) for three months ended June 30, 2012 compared to \$329,711 for the same period in 2011. In the second quarter of 2012, the Company disposed certain subsidiaries and recorded \$5,846,100 of loss on disposals.

**Net Loss**

Net loss was \$5,849,254 for the three months ended June 30, 2012, compared to \$329,711 for the same period in 2011.

**LIQUIDITY AND CAPITAL RESOURCES**

We had cash and cash equivalents of \$254,942 as of June 30, 2012, as compared to \$1,388,743 as of December 31, 2011, a decrease of \$1,133,802. The decrease of cash and cash equivalents during the six months ended June 30, 2012 was primarily

attributable to cash used in operations of \$407,981.

Net cash used in operating activities was \$407,981 for the six months ended June 30, 2012, as compared to net cash used in operating activities \$nil for the six months ended June 30, 2011. The cash used in operating activities was primarily attributable to our net loss, as well as changes in working capital for the six months ended June 30, 2012 and 2011.

Net cash provided from investing activities was \$149,974 for the six months ended June 30, 2012, as compared to \$nil for the six months ended June 30, 2011. Main components of cash flows from investing activities for the six months ended June 30, 2012 included cash of \$9,236 used in purchases of equipment and furniture. Main components of cash flows from investing activities for the six months ended June 30, 2012 included cash \$159,210 received from disposal of subsidiaries.

Net cash from financing activities was \$31,552 for the six months ended June 30, 2012 compared to \$nil for the same period last year. Main components of cash flows from financing activities for the three months ended June 30, 2012 included \$31,552 proceeds from related parties.

We have funded our activities to date primarily through the sales of surveillance and safety products and systems and the issuance of equity securities. Our working capital resources should be sufficient for our operation for the next twelve months, and we are seeking additional bank lines and placement of equity. However, we can give no assurance we will be successful in these efforts. If we do not receive additional funding we may have to curtail our operations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Foreign Exchange Risk**

Our reporting currency is the U.S. dollar. Except for the U.S. holding company, the majority of our consolidated revenues, consolidated costs and expenses, and our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollars and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the Renminbi has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

#### **Inflation**

Inflationary factors such as increases in the cost of our materials and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

**(b) Changes in Internal Controls**

There were no changes in our internal controls and procedures in internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to rely on the members of the Board of Directors to provide assurance that our entity-level controls remain effective and we believe our process-level controls remain effective.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not party to any material legal proceeding.

**Item 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 30, 2012.

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**



None.

**Item 4. Mine Safety Disclosures**

Not Applicable

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANV SECURITY GROUP, INC.

By: /S/ Weixing Wang  
Weixing Wang  
Chief Executive Officer (Principal Executive Officer)

By: /S/ Kevin Su  
Kevin Su  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

October 19, 2012