

ANV SECURITY GROUP INC.  
Form 10-Q  
November 19, 2010

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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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.)

2nd Floor, Tower B, Jiada R&D Building, No 5  
Songpingshan Road, Shenzhen, China  
(Address of principal executive offices)

518057  
(Zip Code)

0086-755-86656426  
(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 August 16, 2010, 47,930,071 shares of common stock, par value \$.001 per share, were outstanding, of which 34,040,071 shares were held by non-affiliates.

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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)

	Notes	September 30, 2010 (Unaudited)	As of March 31, 2010 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	Note 1-g	\$ 5,682,077	\$ 31,756
Accounts Receivable	Note 2	2,376,498	-
Stock Subscription Receivable		6,250,000	
GST Receivable	Note 1-j	5,827	2,547
Inventory	Note 3	3,938,035	81,490
Advances to suppliers	Note 1-k	609,386	
Other Assets	Note 4	8,763	5,227
<b>Total Current Assets</b>		<b>18,870,586</b>	<b>121,020</b>
Property and Equipment , net	Note 5	577,230	21,015
Intangible Assets	Note 6	1,352,887	1,379,858
Goodwill	Note 6	6,274,630	
Deferred Tax Assets	Note 6	656,146	
<b>Total Assets</b>		<b>\$ 27,731,479</b>	<b>\$ 1,521,893</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	Note 7	\$ 4,466,192	\$ 7,303
Income Tax Payable	Note 8	12,787	
Due to related parties	Note 9	13,663,151	38,188
<b>Total Liabilities</b>		<b>18,142,130</b>	<b>45,491</b>
Commitments and Contingencies	Note 12		
<b>Stockholders' Equity</b>			

Common Stock, Unlimited shares authorized, without par value 51,130,071 and 33,190,071 shares issued and outstanding, respectively	Note 10	10,904,907	1,999,139
Additional Paid-in Capital for Stock Options		24,836	24,836
Deficit Accumulated		(1,542,022)	(739,448)
Accumulated Other Comprehensive Income (Loss)		201,628	191,875
Total Stockholders' Equity		9,589,349	1,476,402
Total Liabilities and Stockholders' Equity		\$ 27,731,479	\$ 1,521,893

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

ANV Security Group, Inc.  
Consolidated Statements of Operations  
(Expressed in US dollars)  
(Unaudited)

	Notes	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Revenue	Note 1-p	\$ 108,620	\$ 5,429	\$ 135,955	\$ 11,099
Cost of Sales		97,325	1,353	109,881	3,475
Gross profit		11,295	4,076	26,074	7,624
<b>Expenses</b>					
Advertising and promotion	Not 1-v	13,399	8,770	13,399	12,928
Amortization		70,190	1,503	139,933	2,814
Automobile		-	194	-	194
Commission		-	322	38,900	30,952
Dues		-	111	-	165
General and administrative		59,468	6,522	80,213	13,038
Insurance		-	-	1,532	-
Licence		291	-	291	-
Payroll		43,501	40,750	93,311	55,234
Professional fees		434,890	2,732	438,731	21,767
Rent		9,337	6,191	16,541	11,768
Repair and Maintenance		-	-	584	-
Travel		1,760	8,492	12,968	11,089
Total Expenses		632,836	75,587	836,403	159,949
<b>Other Income (Expenses)</b>					
Interest Income		156	-	156	-
Rental Income		-	-	-	2,827
Customer Rebate		-	935	8	3,973
Exchange Gain (Loss)		13,891	(6,610)	6,620	(13,932)
Interest Expense		(1,147)	(586)	(1,839)	(967)
Total Other Income (Expense)		12,900	(6,261)	4,945	(8,099)
<b>Net (Loss) Before Income Tax</b>					
Expense		(608,641)	(77,772)	(805,384)	(160,424)
<b>Income Tax Expense, Net of</b>					
Income Tax Benefit	Note 8			2,811	
Net Loss		(608,641)	(77,772)	(802,573)	(160,424)
<b>Other Comprehensive Income</b>					
Foreign Currency Translation					
Adjustment	Note 12	95,234	162,711	9,753	272,798

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Comprehensive Income		\$ (513,407)	\$ 84,939	\$ (792,820)	\$ 112,374
Net Loss Per Share – Basic and Diluted	Note 1-r	(0.01)	(0.01)	(0.02)	0.00
Weighted Average Shares Outstanding		50,251,995	28,957,266	41,843,258	31,121,916

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

ANV Security Group, Inc.  
Consolidated Statements of Cash Flows  
(Expressed in US dollars)  
(Unaudited)

	For the Six Months Ended September 30, 2010	For the Six Months Ended September 30, 2009
<b>Cash flows from operating activities</b>		
Net loss	\$ (802,573)	\$ (160,423)
<b>Adjustment to reconcile net loss to net cash used in operating activities:</b>		
Amortization	140,493	3,019
Foreign Currency Exchange Loss	15,514	
Stock-Based Compensation	-	-
Changes in operating assets and liabilities:	-	-
Prepaid expenses and deposits	(6,443)	-
GST Receivable	(3,312)	1,055
Inventory	(111,704)	(2,596)
Accounts Payable	(27,712)	4,174
Due to related parties	3,915,892	(145,832)
<b>Net Cash (Used for) by Operating Activities</b>	<b>3,120,155</b>	<b>(300,603)</b>
<b>Cash flows from investing activities</b>		
Purchase of equipment and furniture	(23,701)	(847)
Long Term Investment	(720,524)	
Capitalized software development costs	-	(39,325)
Incorporation costs	-	(29,237)
<b>Net Cash (Used for) Provided by Investing Activities</b>	<b>(744,225)</b>	<b>(69,409)</b>
<b>Cash flows from financing activities</b>		
Proceeds from related party	72,919	143,137
Issuance of Common stock	3,155,768	357,649
<b>Net Cash Provided by Financing Activities</b>	<b>3,228,687</b>	<b>500,786</b>
Effect of exchange rate changes on cash	28,906	49,811
<b>Increase (Decrease) In Cash</b>	<b>5,633,523</b>	<b>180,585</b>
Cash – Beginning of Period	48,554	28,470



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Cash – End of Period	\$ 5,682,077	\$ 209,055
<b>Supplemental Schedule of Cash Flows Disclosures</b>		
Interest paid	\$ (1,147)	\$ -
Income taxes paid	\$	\$
<b>Supplemental Schedule of Non-Cash Flows Activities</b>		
Stock-based Compensation, Stock Options Issued	\$ -	\$ 131,440

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

ANV Security Group, Inc.  
Notes to Consolidated Financial Statements  
September 30, 2010

Note 1. Organization and Summary of Significant Accounting Policies

Organization

ANV Security Group Inc. (“ANVS”) was incorporated under the laws of the State of Nevada on May 29, 1981. The company went dormant in 1992 and did not have any operations for many years until we acquired all of the shares of Canada ANV Systems, Inc., a British Columbia corporation in June 2009 and changed our name to ANV Security Group, Inc. The company plan is 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 Peoples Republic of China, Canada and the United States of America, Also the Company offers a wide range of video cameras powered by the next generation H.264 video technologies and our patent pending USC18.com services platforms. We are currently headquartered in Shenzhen, China.

Summary of Significant Accounting Policies

a) Basis of Presentation

These financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company’s fiscal year-end is March 31.

b) Principles of Consolidation

These consolidated financial statements include the accounts of ANV Security Group Inc. and its wholly-owned subsidiaries, ANV Video Alarm Service Inc which was incorporated in British Columbia, Canada on May 30, 2008, ANV Security Group (Asia) Co., Limited which was incorporated in December 2009, and ANV Security Group Technology (Taian) Co., Ltd. which was incorporated in August 2010. ANV Security Group (Asia) Co., Limited has its wholly-owned subsidiary, Flybit International Limited which was incorporated under the laws of the Hong Kong Special Administrative Region on August 15, 2008, and ANV Security Technology (China) Co., Ltd. which was incorporated on October 18, 2007 with former name of Shenzhen Angesi Technology Co., Ltd. All intercompany accounts and transactions have been eliminated in consolidation.

c) Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to useful life and recoverability of long-lived assets, donated expenses, and deferred income tax valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

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 had no impact on previously stated financial statements of the Company.

e) Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at September 30, 2010, the Company's component of comprehensive income consisted of foreign currency translation adjustments and profit margin.

f) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

## g) Concentration of Credit Risks

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions in Canada. The Company has not experienced any losses in such bank accounts through September 30, 2010. At September 30, our bank deposits were as follows:

COUNTRY	September 30, 2010	March 31, 2010
Canada	\$ 449,612	\$ 31,756
Asia	5,232,465	-0-
Total cash and cash equivalents	\$ 5,682,077	\$ 31,756

In an effort to mitigate any potential risk, the Company periodically evaluates the credit quality of the financial institutions at which it holds deposits.

## h) Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection.

## i) Inventories

Inventories are stated at the lower of average cost or market and consist of raw materials and finished goods. The Company writes down inventory for estimated obsolescence or unmarketable inventory based upon assumptions and estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required.

## j) GST Receivable

GST receivable represents tax credit that the Canadian Company receives when the Company pays GST tax during normal operations. As of September 30, 2010, the Company had a GST tax receivable of \$5,827.

## k) Advances to Suppliers

Advances to suppliers included in other assets represent the cash paid in advance for purchasing of inventory items from Suppliers and the amount as of September 30, 2010 was \$609,386.

## l) Property and Equipment

Property and equipment consists of furniture, office equipment, computer equipment/software and leasehold improvement, is recorded at cost. The property and equipment other than leasehold improvement is depreciated on a straight line basis over an estimated useful life of three years. Leasehold improvement is depreciated on a straight line basis over the lease period of ten years.

## m) Intangible Assets

The Company adopted the provisions of ASC Topic 350 (formerly SFAS No. 142, Goodwill and Other Intangible Assets), according to which goodwill and indefinite lived intangible assets are not amortized, but are reviewed annually for impairment, or more frequently, if indications of possible impairment exist. The Company has performed the requisite annual transitional impairment tests on intangible assets and made the impairment adjustments as necessary.

Intangible assets consist of two parts. The first is a surveillance recording system, surveillance software, technical know-how and non-compete agreements, developed by Jiwei Zhang, Xianbo Fu, Kewei Feng, Mingyue Fan (all individuals), acquired originally by Landmark Enterprise Group Inc. (“Landmark”), a related party, and subsequently sold to the Company in exchange for common shares. The value of intangible assets acquired from Landmark was established by an independent valuation report. The second part is incorporation cost of Shell Company purchasing. Intangible assets are depreciated on a straight line basis over an estimated useful life of five years.

n) Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

o) Financial Instruments and Fair Value Measures

In April 2009, the FASB issued FASB ASC 825-10-50 and FASB ASC 270 ("FSP 107-1 AND APB 28-1 Interim Disclosures About Fair Value Of Financial Instruments"), which increases the frequency of fair value disclosures to a quarterly basis instead of on an annual basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on an entity's balance sheet at fair value. FASB ASC 825-10-50 and FASB ASC 270 are effective for interim and annual periods ending after June 15, 2009. The adoption of FASB ASC 825-10-50 and FASB ASC 270 did not have a material impact on results of operations, cash flows, or financial position.

p) Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

q) Foreign Currency Translation

The Company's functional currency is the Canadian dollar. The financial statements are translated to United States dollars in accordance with SFAS No. 52 "Foreign Currency Translation" using period-end rates of exchange for assets and liabilities, and average rates of exchange for the year for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity (deficit). Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in United States dollars. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

r) Basic and Diluted Net Income (Loss) Per Share

Earnings per share is computed in accordance with the provisions of Financial Accounting Standards (FASB) Accounting Standards Codification (ASC) Topic 260 (SFAS No. 128, "Earnings Per Share"). Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding during the period, as adjusted for the dilutive effect of the Company's outstanding convertible preferred shares using the "if converted" method and dilutive potential common shares. Potentially dilutive securities include warrants, convertible preferred stock, restricted shares, and contingently issuable shares.

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

at September 30, 2010 include the following:

	September 30, 2010	March 31, 2010
Options	140,000	140,000
Warrants	-0-	-0-
	140,000	140,000

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## s) Stock-based Compensation

We account for non-employee stock-based compensation in accordance with ASC 718 and ASC Topic 505 ("ASC 505"). ASC 718 and ASC 505 require that we recognize compensation expense based on the estimated fair value of stock-based compensation granted to non-employees over the vesting period, which is generally the period during which services are rendered by the non-employees.

As of September 30, 2010, the Company has granted 140,000 shares stock options to its director, consultant and top manager and the fair market value is \$24,836.

## t) Recent Accounting Pronouncements

## Impact of New Accounting Standards

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position, or cash flow.

## Note 2. Accounts Receivable

Accounts receivable \$2,376,498 as of September 30, 2010 consists of \$22,544 of trade receivable of ANV Video Alarm Service Inc. \$75,897 of ANV Security Group Technology (Taian) Co., Ltd, and \$2,278,057 of ANV Security Group (Asia) Co., Limited.

## Note 3. Inventory

At September 30 and March 31, 2010, inventories consisted of:

Subsidiaries	September 30, 2010	March 31, 2010
ANV Video Alarm Service Inc.	\$ 107,290	\$ 81,490
ANV Security Group Technology (Taian) Co., Ltd	144,878	
ANV Security Group (Asia) Co., Limited	3,685,867	
	3,938,035	81,490
Less: Reserve for slow moving inventory	-0-	-0-
	\$ 3,938,035	\$ 81,490

## Note 4. Other Assets

Other assets \$8,763 consist of rental deposit of \$8,763 as at September 30 of ANV Video Alarm Service Inc.

## Note 5. Property and Equipment

Fixed assets are summarized by classifications as follows:

		September 30, 2010	March 31, 2010
	Cost	Accumulated Amortization	Net Carrying Value
Furniture and equipment	\$ 1,212,881	\$ 660,953	\$ 551,929
			\$ 1,599



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Computer equipment	13,863	6,215	7,648	3,347
Customer software	616	565	51	132
Leasehold Improvement	21,426	3,824	17,602	15,937
	\$ 1,248,786	\$ 671,556	\$ 577,230	\$ 21,015

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The furniture, equipment and software are depreciated on a straight line basis over an estimated useful life of three years. Leasehold improvement is depreciated on a straight line basis over the lease period of ten years.

#### Note 6. Intangible Assets

Intangible assets are summarized by classifications as follows:

			September 30, 2010	March 31, 2010
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Research & Development-capitalized	\$ 1,320,901	\$ 133,495	\$ 1,187,407	\$ 1,325,376
Incorporation Cost	53,785	5,378	48,406	54,482
Goodwill	6,274,629	0	6,274,629	-0-
Long-term deferred expense	214,484	97,410	117,074	-0-
Deferred Tax Assets	656,146	0	656,146	-0-
	\$ 8,519,945	\$ 236,283	\$ 8,283,662	\$ 1,379,858

Intangible assets are depreciated on a straight line basis over an estimated useful life of five years.

#### Note 7. Accounts Payable

As at September 30, 2010 accounts payable amounted \$4,466,192 consisted of trade payable of \$3,817,267, and customer deposit of \$648,925. As at March 31, 2010, accounts payable amounted \$7,303 consists of amounts owing to Visa \$5,487 and government agency payable \$1,816, respectively.

#### Note 8. Income Tax Payable

Income tax payable amounted \$12,787 is the accrued income tax expenses to China Revenue Agency for the year of 2010 by the subsidiary.

#### Note 9. Related Party Transactions

Amounts owing to the related parties of the shareholders amounted \$13,663,151 as at September 30 and \$38,188 as at March 31, 2010, respectively.

#### Note 10. Capital Stock

The company is authorized to issue unlimited shares of common stocks – Class A and Class B, no par value share. As of September 30 and March 31, 2010, the amount of voting common shares issued and outstanding are 51,130,071 and 33,190,071, respectively.

On June 28, 2009, Company entered in to an agreement and plan of reorganization (“agreement”) by and among Dini Products, Inc. (“DINP”), a Nevada corporation whereas, each of the common share in the Company was exchanged on a share for share basis so that after such exchange DINP has 33,190,071 shares of common stock issued and outstanding inclusive of 29,860,000 shares issued to the Company’s stockholders.

Upon execution of agreement, the Company has amended its name to ANV Security Group, Inc.

Note 11. Foreign Currency Translation

Accounting for Canada ANV System Inc. and its subsidiary is conducted in Canadian currency. It converts figures on a period basis in accordance with FASB # 52. The functional currency is in Canadian currency. The Companies balance sheet as of September 30, 2010 was translated at six months ended rate of 0.9718 (Canadian currency to US currency), 0.1492 (China currency to US currency), and 0.1289 (Hong Kong currency to US currency) for the three subsidiaries, respectively. Statements of operations were reported on the weighted average for the three months ended September 30, 2010 as required by FASB # 52 at the rate of 0.9620 (Canadian currency to US currency), 0.1478 (China currency to US currency), and 0.1287 (Hong Kong currency to US currency) for the three subsidiaries, respectively. Statement of cash flows were reported on the weighted average for the six months ended September 30, 2010 as required by FASB # 52 at the rate of 0.9672 (Canadian currency to US currency), 0.1289 (China currency to US currency), and 0.1284 (Hong Kong currency to US currency) for the three subsidiaries, respectively.

Note 12. Commitments and Contingencies

12.1 Lease Commitments

Company leases its North American office space and laboratory facility in Richmond, British Columbia which starts on April 1, 2010 and expires on March 31, 2013. Its total monthly minimum rental fee is \$ 3,285.

The company leases its headquarter office in Shenzhen, China which starts on April 1, 2010 and expires on March 31, 2019. Its total monthly rental fee is RMB 25,400.

12.2 Litigation

As per the Company, as of September 30, 2010, there are no actions, suits, proceedings or claims pending against or materially affecting the Company, which if adversely determined, would have a material adverse effect on the financial condition of ANV.

Note 13 Acquisitions

On June 1 2010 ANV Security Group (Asia) Co., Limited, acquired 100% shares of Flybit International Ltd.

In January 2010, Company has established ANV Security Group (Asia) Co. Ltd. a Hong Kong Company (“ ANV Asia”) as a wholly- owned subsidiary of the registrant for the purpose of acquiring operating companies in China. ANV Asia has no operation to this date.

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. Now this acquisition had done. The Company intends to utilize the assets of these companies to expand its manufacturing base and increase its retail operations in China.

On December 24, 2009, the Company entered into an agreement (the “Angesi Agreement”) with the shareholders of Shenzhen Angesi Technology Co., Ltd (“Angesi”) to acquire 100 % equity ownership of Angesi. Angesi and its affiliates are in the business of developing, manufacturing and marketing video cameras throughout China. The closing of the acquisition of Angesi has occurred on September 30, 2010 ..

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.

## RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

#### Second Quarter FY 2011 v Second Quarter FY 2010

**Revenues.** We had revenue of \$108,620 in the second quarter of FY 2011 and revenues of \$5,429 for the second quarter of FY 2010 as the earlier portion of FY 2010 was devoted to product design and establishing a business model in Canada. The results in the 2011 FY, particularly in the second quarter, as described below, reflect management's decision to concentrate on the Company's efforts to enter the larger Chinese market rather than pursue further development of the Canadian market. Management believes that the Chinese market, which is much larger than the Canadian market will enable the Company to enjoy greater revenues in the future. As reported on a Current Report on Form 8-K, filed February 5, 2010, we have made several acquisitions to facilitate our entry into the Chinese market. Although we reported those acquisitions in February, principally due to the need for the completion of government approval processes in China, the acquisitions could not be completed until June and September 2010. We are in the early stages of developing the Chinese market we expect that revenues and results will fluctuate from quarter to quarter. We anticipate opening retail stores in China during calendar 2010 although this portion of our strategy may be delayed. The costs of opening a Company operated store include inventory, real estate costs, employee expense and promotional expenses such as advertising. The costs to open a Company owned in China are anticipated to be approximately \$10,000 per retail store. The size and scope of each of these programs will be governed by management's assessment of the Company's capital resources and cannot be specified at this time. Due to our change in strategy and emphasis in 2011, comparisons between FY 2010 periods and the corresponding period in FY 2011 are not necessarily meaningful.

**Cost of Sales; Gross Profit.** Our cost of sales in the second quarter of FY 2011 was \$97,235, yielding a gross profit of \$11,295 or 10.5% of sales. Our cost of sales in the second quarter of FY 2010 was \$1,353, yielding a gross profit of \$4,076 or 75.1% of sales. Both of these results and ratios are from an early stage operation and management does not believe that significant conclusions should be drawn from these limited results.

#### Operating Expenses

Operating expenses increased to \$632,836 in the second quarter of FY 2011 compared to \$75,587 in comparable period in FY 2010 as increases were incurred in every category due to the large scale operations in China which are included for the second quarter of FY 2011. Again, as the operations are in an early stage, especially in China, management would caution against drawing any significant conclusions from these limited results.

#### Net Loss; Comprehensive Loss

Our net loss and comprehensive loss consists of two parts: net operating gain (loss) and foreign currency translation adjustments. Because all our transactions are recorded in Canadian dollars or Chinese RMB, we need to exchange them into US dollar using the exchange rate for different period when we release the financial statements to the public. If the exchange rate fluctuates and if we have a large balance of assets, liabilities or equity, the foreign currency translation adjustment will be large.

For the three months ended September 30, 2010, the net loss was \$(608,841), and foreign currency translation adjustment gain was \$95,234, so the comprehensive loss was \$(513,407). (Because we have substantial intangible assets the foreign transaction adjustment was large). For the three months ended September 30, 2009, the net loss was \$(77,772) but foreign currency translation adjustment gain was \$162,711 so the comprehensive income was \$84,939 (Because we have substantial intangible assets the foreign transaction adjustment was large)

First Two Quarters FY 2011 v First Two Quarters FY 2010

Revenue. We had revenue of \$135,955 in the first two quarters of FY 2011 and revenues of \$11,099 for the first two quarters of FY 2010 as the earlier portion of FY 2010 was devoted to product design and establishing a business model in Canada. The results in the 2011 FY, particularly in the second quarter, as described above, reflect management's decision to concentrate on the Company's efforts to enter the larger Chinese market rather than pursue further development of the Canadian market. Management believes that the Chinese market, which is much larger than the Canadian market will enable the Company to enjoy greater revenues in the future. As reported on a Current Report on Form 8-K, filed February 5, 2010, we have made several acquisitions to facilitate our entry into the Chinese market. Although we reported those acquisitions in February, principally due to the need for the completion of government approval processes in China, the acquisitions could not be completed until June 2010. We are in the early stages of developing the Chinese market we expect that revenues and results will fluctuate from quarter to quarter. We anticipate opening retail stores in China during calendar 2010 although this portion of our strategy may be delayed. The costs of opening a Company operated store include inventory, real estate costs, employee expense and promotional expenses such as advertising. The costs to open a Company owned in China are anticipated to be approximately \$10,000 per retail store. The size and scope of each of these programs will be governed by management's assessment of the Company's capital resources and cannot be specified at this time. Due to our change in strategy and emphasis in 2011, comparisons between FY 2010 periods and the corresponding period in FY 2011 are not necessarily meaningful.

Cost of Sales; Gross Profit. Our cost of sales in the first two quarters of FY 2011 was \$109,881, yielding a gross profit of \$26,074 or 19.2% of sales. Our cost of sales in the first two quarters of FY 2010 was \$3,475, yielding a gross profit of \$7,624 or 68.7% of sales. Both of these results and ratios are from an early stage operation and management does not believe that significant conclusions should be drawn from these limited results.

## Operating Expenses

Operating expenses increased to \$836,403 in the first two quarters of FY 2011 compared to \$159,949 in comparable period in FY 2010 as increases were incurred in every category due to the large scale operations in China which are included for the second quarter of FY 2011. Again, as the operations are in an early stage, especially in China, management would caution against drawing any significant conclusions from these limited results.

## Net Loss; Comprehensive Loss

Our net loss and comprehensive loss consists of two parts: net operating gain (loss) and foreign currency translation adjustments. Because all our transactions are recorded in Canadian dollars or Chinese RMB, we need to exchange them into US dollar using the exchange rate for different period when we release the financial statements to the public. If the exchange rate fluctuates and if we have a large balance of assets, liabilities or equity, our foreign currency translation adjustment will be large.

For the six months ended September 30, 2010, the net loss was \$(802,573), and foreign currency translation adjustment gain was \$9,753, so the comprehensive loss was \$(792,820). (Foreign currency did not fluctuate greatly during the period.) For the six months ended September 30, 2009, the net loss was \$(160,424) but foreign currency translation adjustment gain was \$272,798 so the comprehensive income was \$112,374 (Because we have substantial intangible assets the foreign transaction adjustment was large)

## LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities for the three-month period ended September 30, 2010 totaled \$3,120,155.

Net Cash flows used for investing activities in the three months ended September 30, 2010 totaled \$(744,255).

Net cash provided by financing activities, the sale of our stock, was \$3,228,687 for the three months ended September 30, 2010.

The Company has significant cash resources but intends to continue to raise additional capital through the issuance of debt or equity in order to expand operations. The Company has entered into a letter agreement with an investment banking group to raise funds to allow the Company to expand its operations in China. The availability of cash through such resources is not assured and if the Company is not able to raise enough cash, the Company might be forced to delay or limit the expansion of its Chinese operations.

## 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 September 30, 2010, 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 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a) 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

b) REPORTS ON FORM 8-K

Report on Form 8-K filed July 29, 2010 including items 3.02 and 9.01.

Report on Form 8-K (A-1) filed September 15, 2010 including items 1.01 and 9.

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/ Yan Wang  
Yan Wang  
VP and Chief Financial  
Officer (Principal Financial and  
Accounting Officer)

November 17, 2010