

AIVTECH INTERNATIONAL GROUP CO.
Form 10-Q
November 14, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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, 2011

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: 333-161941

AIVTECH INTERNATIONAL GROUP CO.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

N/A
(I.R.S. Employer Identification No.)

1305 East, Hightech Plaza, Phase 2,
Tian'an Cyber Park
Futian District, Shenzhen City
Guangdong Province, China
(Address of principal executive offices)

518034
(Zip Code)

+86 (139) 2349-3889
(Registrant's telephone number, including area code)

Not Applicable
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

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

As of November 14, 2011, there were 22,515,334 shares outstanding of the registrant’s common stock.

AIVTECH INTERNATIONAL GROUP CO.

FORM 10-Q

September 30, 2011

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

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AIVtech International Group Co.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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AIVTECH INTERNATIONAL GROUP CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 18,060,314 | \$ 7,079,221 |
| Accounts receivable | 10,542,081 | 7,192,694 |
| Other receivable and prepaid expense | 84,899 | 198,553 |
| Inventories | 1,074,371 | 571,602 |
| Total current assets | 29,761,665 | 15,042,070 |
| Property and equipment, net | 1,019,475 | 1,127,334 |
| Deposit for land use right | 4,699,042 | - |
| TOTAL ASSETS | \$ 35,480,182 | \$ 16,169,404 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Account payables and accrued expense | \$ 4,060,546 | \$ 962,099 |
| Taxes payable | 842,774 | 785,636 |
| Due to related parties | 266,242 | 529,166 |
| Dividend payable | 3,948,125 | 3,948,125 |
| Warrants liability | 129,291 | 299,492 |
| Total current liabilities | 9,246,978 | 6,524,518 |
| Long term loan | - | 757,311 |
| TOTAL LIABILITIES | 9,246,978 | 7,281,829 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY | | |
| Common stock, \$.001 par value, 75,000,000 shares authorized, 22,515,334 shares and 22,513,334 shares issued and outstanding, respectively | 22,515 | 22,513 |
| Additional paid-in capital | 7,604,455 | 7,566,593 |
| Stock subscription receivable | - | (7,540,002) |
| Statutory reserve | 482,377 | 482,377 |
| Retained earnings | 14,707,009 | 6,773,472 |
| Accumulated other comprehensive income | 1,428,501 | 737,196 |
| Total AIVtech Stockholders' equity | 24,244,857 | 8,042,149 |
| Non-controlling interest | 1,988,347 | 845,426 |
| Total equity | 26,233,204 | 8,887,575 |
| TOTAL LIABILITIES AND EQUITY | \$ 35,480,182 | \$ 16,169,404 |

The accompany notes are an integral part of these unaudited condensed consolidated financial statements

AIVTECH INTERNATIONAL GROUP CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE
INCOME

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--|---|--------------|--|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$20,667,885 | \$27,419,290 | \$54,426,551 | \$56,101,695 |
| Cost of sales | (16,139,318) | (21,417,974) | (42,419,946) | (42,644,943) |
| Gross profit | 4,528,567 | 6,001,316 | 12,006,605 | 13,456,752 |
| Operating expenses | | | | |
| Selling expense | (205,717) | (212,779) | (634,199) | (505,973) |
| General administrative expenses | (468,643) | (507,006) | (1,571,605) | (1,366,649) |
| Total operating expenses | (674,360) | (719,785) | (2,205,804) | (1,872,622) |
| Income from Operations | 3,854,207 | 5,281,531 | 9,800,801 | 11,584,130 |
| Other income (expenses) | | | | |
| Change in fair value of warrants liability | 178,748 | - | 170,201 | - |
| Interest income | 23,679 | 5,724 | 49,570 | 12,933 |
| Interest expenses | (331) | (5,035) | (22,807) | (11,362) |
| Total other income (expense) | 202,096 | 689 | 196,964 | 1,571 |
| Income before income tax | 4,056,303 | 5,282,220 | 9,997,765 | 11,585,701 |
| Provision for Income taxes | (590,686) | (720,648) | (1,530,232) | (1,471,624) |
| Net income | 3,465,617 | 4,561,572 | 8,467,533 | 10,114,077 |
| Less: Net income attributable to non-controlling interest | 200,140 | 201,163 | 533,997 | 335,594 |
| Net income attributable to AIVtech International Group Co. | \$3,265,477 | \$4,360,409 | \$7,933,536 | \$9,778,483 |
| Net income | 3,265,477 | 4,360,409 | 7,933,536 | 9,778,483 |
| Foreign currency translation adjustment | 252,771 | 92,423 | 691,305 | 114,643 |
| Comprehensive income | 3,518,248 | 4,452,832 | 8,624,841 | 9,893,126 |
| Comprehensive income attributable to non-controlling interest | \$(75,832) | \$(60,349) | \$(207,392) | \$(34,393) |
| Comprehensive income attributable to AIVtech International Group Co. | 3,442,416 | 4,392,483 | \$8,417,449 | \$9,858,733 |
| Basic and diluted income per common share | | | | |
| - basic | \$0.14 | \$0.22 | \$0.35 | \$0.64 |
| -diluted | \$0.14 | \$0.22 | \$0.35 | \$0.64 |
| Basic and diluted weighted average common shares outstanding | | | | |
| - basic | 22,515,334 | 20,000,000 | 22,514,680 | 15,364,430 |
| -diluted | 22,515,334 | 20,000,000 | 22,514,680 | 15,364,430 |

The accompany notes are an integral part of these unaudited condensed consolidated financial statements

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AIVTECH INTERNATIONAL GROUP CO. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

| | 2011 | 2010 (Restated) |
|---|--------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$8,467,533 | \$10,114,076 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 149,191 | 126,403 |
| Stock issued for service | 4,000 | - |
| Change in fair value of warrants liability | (170,201) | - |
| Changes in assets and liabilities : | | |
| Accounts receivable | (3,050,022) | (7,746,286) |
| VAT tax recoverable | - | 852,452 |
| Other receivable and prepaid expense | 49,827 | (124,208) |
| Inventories | (474,884) | 1,409,618 |
| Account payables and accrued expenses | 3,435,774 | (1,951,454) |
| Taxes payable | 29,784 | 462,074 |
| Net cash provided by operating activities | 8,441,002 | 3,142,676 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property & equipment | (5,366) | (180,421) |
| Deposit for land use right | (4,617,700) | - |
| Net cash used in investing activities | (4,623,066) | (180,421) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Repayment) proceeds from loan | (769,617) | 739,729 |
| Repayment of related party loans | (206,416) | (18,895) |
| Increase in capital contribution by non-controlling interest | 608,923 | |
| Due to a related party | - | 105,353 |
| Net proceeds from stock subscriptions | 7,403,341 | - |
| Dividend payment | - | (4,392,643) |
| Net cash provided by (used in) financing activities | 7,036,231 | (3,566,457) |
| Effect of exchange rate changes on cash | 126,926 | 98,593 |
| Net change in cash | 10,981,093 | (505,609) |
| Cash and cash equivalent, beginning of period | 7,079,221 | 3,605,741 |
| Cash and cash equivalent, end of period | \$18,060,314 | \$3,100,132 |
| Supplemental disclosures of cash flow information | | |
| Income taxes paid | \$1,174,478 | \$981,902 |
| Interest paid | \$22,807 | \$11,362 |

The accompany notes are an integral part of these unaudited condensed consolidated financial statements

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - ORGANIZATION

AIVtech International Group Co., (the “Company” or “AIVI”), formerly known as Ecochild, Inc., is a corporation organized under the laws of the State of Nevada. Through its operating subsidiaries in People’s Republic of China (“China”, or the “PRC”), the Company engaged in the design and manufacturing casual furniture audio series, multimedia speakers, and LED business in China.

AIVtech Holding Limited (“AIVtech”) is a corporation organized under the laws of Hong Kong on November 4, 2005, and owns 100% equity interest of Shenzhen AIVtech, a limited liability company organized under the laws of the People’s Republic of China on October 16, 2004. Shenzhen AIVtech owns 70% equity interest of Dongguan AIVtech, a limited liability company organized under the laws of the PRC in December 2009.

In March 2011, the Company’s new subsidiary Henan AIVtech Technology Company, Ltd. (“Henan AIVtech”) was formed by Shenzhen AIVtech, with a registered capital of RMB 50 million (approximate to \$7.6 million). As of September 30, 2011, a total capital contribution of RMB 10 million (approximate to \$1.5 million) was contributed to Henan AIVtech, of which RMB 6 million was contributed by Shenzhen AIVtech and RMB 4 million was contributed by Mr. Jinlin Guo, the Chief Executive Officer of the Company. As a result, the Company now directly controls Henan AIVtech, a limited liability company organized under the laws of the PRC in March 2011. As of September 30, 2011, the Company has paid RMB 30 million to local government as land use right deposit. Henan AIVtech currently has no operations but will start to construct a manufacturing plant in Henan province once local government approves the land use right, which is expected by the end of December 2011. Accordingly, there were no operating activities reported for Henan AIVtech for the nine months ended September 30, 2011.

On May 12, 2010, the Company executed a Share Exchange Agreement (“Exchange Agreement”) with AIVtech and the shareholders of AIVtech (the “AIVtech Shareholders”), and acquired all of the outstanding shares of AIVtech from the AIVtech Shareholders.

In connection with the acquisition, the Company issued to the AIVtech Shareholders, their designees or assigns, an aggregate of 10,375,000 shares (the “Shares Component”) of the common stock of the Company, at par value of \$0.005 per share, so that upon completion of the Exchange Agreement, the shareholders of AIVtech own approximately 51.88% of the common stock of the Company. In addition, the Company declared dividend and agreed to pay cash (the “Cash Component”) of \$3,948,125 to the AIVtech Shareholders. The Cash Component was originally payable within 12 months after the closing of acquisition transaction and has been subsequently extended to May 12, 2012. The parties understand and acknowledge that such exchange is based upon an acquisition value of AIVtech at \$4,000,000. In addition to the above Shares and Cash component, Jie Zhang, the major shareholder of the Company transferred 3,009,000 shares to two shareholders of AIVtech. The two shareholders, the directors and officers of AIVtech, are (1) Guo Jinlin, to receive 1,770,000 shares, and (2) Ding Lanbing, through Guo Jin Tong Investment (Hong Kong) Limited, to receive 1,239,000 shares.

Before the closing of the transaction, there were 9,625,000 shares of the Company’s common stock issued and outstanding. Upon completion of the Share Exchange Transaction, there were 20,000,000 shares of the Company’s common stock issued and outstanding.

As a result of the above mentioned Share Exchange Transaction, AIVtech became the Company’s wholly-owned subsidiary and the Company, through AIVtech, acquired direct control of Shenzhen AIV Electronics Company Limited (“Shenzhen AIVtech”), and DongGuan AIV Electronics Company Limited (“Dongguan AIVtech”). Shenzhen AIVtech and Dongguan AIVtech are each engaged in the design and manufacturing casual furniture audio series,

multimedia speakers, and LED business in China.

Subsequently, the Company's name was changed from "Ecochild, Inc." to "AIVtech International Group Co." in order to more effectively reflect the Company's business and communicate the Company's brand identity to customers.

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Note 2 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rules of the Securities and Exchange Commission relating to interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (“US GAAP”) for complete financial statements. In the opinion of the management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated December 31, 2010 financial statements and footnotes included in the Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 31, 2011. Operating results for the three and nine months ended September 30, 2011 and 2010 may not be necessarily indicative of the results that may be expected for the full years.

The accompanying condensed consolidated financial statements of the Company include the accounts of all directly and indirectly owned subsidiaries listed below. All intercompany transactions have been eliminated upon consolidation.

| Name of the entity | Place of Incorporation | Ownership Percentage |
|---|------------------------|----------------------|
| AIVtech International Group Co. | Nevada | 100% |
| AIVtech Holding Co., Ltd | Hongkong, China | 100% |
| Shenzhen AIVtech Electronics Co., Ltd. (Shenzhen AIVtech) | Shenzhen, China | 100% |
| Dongguan AIVtech Electronics Co., Ltd. (Dongguan AIVtech) | Dongguan, China | 70% |
| Henan AIVtech Electronics Co., Ltd. (Henan AIVtech) | Henan, China | 60% |

Note 3. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has reclassified and restated certain line items on the 2009 consolidated financial statements, which has no impact on its interim condensed consolidated statements of income and comprehensive income, but impact the corresponding line items on its condensed consolidated statements of cash flows for the nine months ended September 30, 2010, as disclosed in the Form 10-K filed with SEC on March 31, 2011.

Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Non-controlling interest

Non-controlling interest represents one minority shareholder’s 30% ownership interest in Dongguan AIVtech Electronics Co., Ltd and 40% ownership interest in Henan AIVtech Electronics Co., Ltd.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the condensed consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment, provision necessary for contingent liabilities and doubtful accounts, realization of deferred tax assets and the fair value of warrants liability. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, inventory, accounts payable and other accrued expenses, tax payable, dividend payable, and due to related parties approximate their fair value based on the short-term maturity of these instruments.

The financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 are summarized as follows:

| | Fair value measurement using inputs | | | Carrying value Total |
|-----------------------------------|-------------------------------------|------------|---------|----------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Liabilities: | | | | |
| Derivative instruments – Warrants | \$ - | \$ 129,291 | \$ - | \$ 129,291 |
| Total | \$ - | \$ 129,291 | \$ - | \$ 129,291 |

Foreign Currency Translation

The Company's condensed consolidated financial statements are presented in US dollars. In accordance with ASC 830, "Foreign Currency Matters", an entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. Since substantially all operations of the Company are conducted in the PRC, the functional currency of the Company is Renminbi ("RMB"), the currency of the PRC.

The condensed consolidated financial statements of the Company have been translated into U.S. dollars. The condensed consolidated financial statements are first prepared in RMB and then are translated into U.S. dollars at year-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 adjustments are included as a component of accumulated other comprehensive income in

shareholders' equity.

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Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
|------------------------------------|-----------------------|----------------------|-----------------------|
| Period end RMB: US\$ exchange rate | 6.3843 | 6.6023 | 6.6981 |
| Average RMB: US\$ exchange rate | 6.4967 | 6.7148 | 6.8164 |

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.

Impairment of long-lived assets

ASC 360, "Property, Plant and Equipment", requires long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company tests long-lived assets, including property and equipment and other assets, for recoverability at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally measured by discounting expected future cash flows as the rate the Company utilizes to evaluate potential investments. The Company estimates fair value based on the information available in making whatever estimates, judgments and projections are considered necessary. There was no impairment of long-lived assets as of September 30, 2011 and December 31, 2010, respectively.

Revenue Recognition

The Company recognizes revenues in accordance with ASC 605 Revenue Recognition. Revenue is recognized at the date the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Revenue is not recognized until title and risk of loss is transferred to the customer, which occurs upon delivery of goods, and objective evidence exists that customer acceptance provisions have been met.

The Company sells its products to customers who have passed the Company's credit check. Sales agreements are signed with each customer. The purchase price of products is fixed in the agreement. The Company makes custom products based on sales agreements, so no sales returns are allowed. The Company accepts returns one year from the date of shipment only in the event of defects. Historically, the Company has not experienced significant defects, and replacements for defects have been minimal. For the three and nine month ended September 30, 2011 and 2010, no sales returns and allowances have been recorded. Should returns increase in the future it would be necessary to adjust estimates, in which case recognition of revenues could be delayed.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a

liability on the balance sheet until such VAT is paid to the authorities.

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Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Product warranty

The Company provides product warranties to its customers that all products manufactured by it will be free from defects in materials and workmanship under normal use for a period of one year from the date of shipment. The Company's costs and expenses in connection with such warranties have been minimal and, as of September 30, 2011 and December 31, 2010, no product warranty reserve was considered necessary.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740-10-25 prescribes a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the 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, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There are no material uncertain tax positions as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011, the tax years ended December 31, 2005 through December 31, 2010 for the Company's PRC entities remain open for statutory examination by PRC tax authorities. The parent Company AIVtech International Group Inc's tax years ended December 31, 2006 through December 31, 2010 remain open for statutory examination by U.S. tax authorities

Value Added Taxes

The Company is subject to a value added tax ("VAT") for selling merchandise. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty based on the amount of the taxes which are determined to be late or deficient, and will be expensed in the period if and when a determination is made by the tax authorities that a penalty is due.

The Company reports revenues net of PRC's value added tax for all the periods presented in the consolidated statements of operations.

Earnings per share

The Company computes earnings per share (“EPS”) in accordance with ASC 260 “Earnings per Share”. 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.

Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2010, the Company entered into a share exchange transaction which has been accounted for as a reverse acquisition or recapitalization primarily since there has been a change of control. The Company computes the weighted-average number of common shares outstanding in accordance with ASC 805, Business Combinations, which states that in calculating the weighted average shares when a reverse acquisition takes place in the middle of the year, the number of common shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted-average number of common shares of the legal acquiree (the accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement. The number of common shares outstanding from the acquisition date to the end of that period shall be the actual number of common shares of the legal acquirer (the accounting acquiree) outstanding during that period.

Recently issued accounting standards

On May 12, 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2011-04 (“ASU 2011-04”), Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 completes a major project of the boards’ joint work to improve IFRS and US GAAP and to bring about their convergence. For US GAAP, ASU 2011-04 will supersede most of the guidance in Topic 820, although many of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. It also reflects the FASB’s consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. ASU 2011-04 will be effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. The adoption of this accounting standard is not expected to have a material effect on the Company’s condensed consolidated financial statements.

On June 16, 2011, FASB issued Accounting Standards Update 2011-05 (“ASU 2011-05”), Comprehensive Income (Topic 220)-Presentation of Comprehensive Income. ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity, and requires that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this accounting standard is not expected to have a material effect on the Company’s condensed consolidated financial statements.

Note 5. – INVENTORIES

As of September 30, 2011 and December 31, 2010, inventories consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|----------------------------|-----------------------|----------------------|
| Raw materials and supplies | \$ 242,395 | \$ 322,935 |
| Work in process | 571,200 | - |
| Finished goods | 260,776 | 248,667 |
| Totals | \$ 1,074,371 | \$ 571,602 |

Note 6 – RELATED PARTY TRANSACTIONS

As of September 30, 2011 and December 31, 2010, related party transactions consisted of the following:

(a) During the normal course of the business, the Company, from time to time, temporarily borrows money from its principal shareholders or officers to finance working capital needs. The amounts are usually unsecured, non-interest bearing and due on demand.

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(b) In May 2010, Shenzhen AIVtech entered into an agreement with Shenzhen Top Finance Guaranty Investment Inc., in which Shenzhen Top Finance Guaranty Investment Inc. agreed to pay, on behalf of Shenzhen AIVtech, all legal, audit, consulting and other expense in connection with Shenzhen AIVtech's efforts of going public in the United States. Total such expenses incurred and paid by Shenzhen Top Finance Guaranty Investment Inc on behalf of Shenzhen AIVtech within 2010 amounted to \$220,907.

On December 31, 2010, Dongguan AIVtech entered into a loan agreement with Shenzhen Top Finance Guaranty Investment Inc. to borrow RMB 2 million (approximate to \$302,924) as working capital. The loan was repaid in full on February 25, 2011.

On March 25, 2011, Dongguan AIVtech entered into an loan agreement with Shenzhen Top Finance Guaranty Investment Inc., to borrow RMB 6 million (approximate to \$913,385) to pay the registered capital of newly formed subsidiary Henan AIVtech as further discussed in Note 1. The loan was repaid in full on June 27, 2011.

Shenzhen Top Finance Guaranty Investment Inc. is one of the major shareholders of the Company, and owns 10.38% of the total issued and outstanding common shares of the Company. As of September 30, 2011, total related party borrowings from Shenzhen Top Finance Guaranty Investment Inc. amounted to \$220,907.

Note 7 – DEPOSIT FOR LAND USE RIGHT

In connection with the formation of a new subsidiary Henan AIVtech, in March 2011, the Company entered into an agreement with Henan Xinyang local government to obtain a land use right lease for 50 years, on which a new manufacturing plant will be built. The Company is required to pay total of RMB 66.7 million for this parcel of land, payable in two installment payments. The first installment payment of RMB 30 million was required to be paid before May 2011 and the remaining amount will be paid in March 2013 when the construction work of the new manufacturing plant is expected to be fully completed. On May 17, 2011, the Company paid RMB 30 million (equivalent to \$4,699,042) to Henan Xinyang Department of Financing as deposit for land use right. As of September 30, 2011, the land use right application has not been approved by local government due to complicated approval procedure. The Company expects to obtain the Certificate of Land Use Right by the end of December 2011.

Note 8 – LONG-TERM LOAN

On January 5, 2010, the Company's subsidiary Dongguan AIVtech entered into a loan agreement with a third-party Dongguan Shilong Industrial Company to borrow RMB 5 million (approximate to \$757,311 on the date of the loan grant) for working capital needs. The loan amount was repaid on March 31, 2011. Interest expense amounted to \$5,195 and \$5,035 for the nine months ended September 30, 2011 and 2010, respectively.

Note 9 – DIVIDEND PAYABLE

Pursuant to the Share Exchange Agreement in connection with the reverse acquisition on May 12, 2010, the Company acquired all of the outstanding shares of AIVtech from the AIVtech Shareholders. In addition to the 10,375,000 common stock issued to AIVtech shareholders, the Company also agreed to pay cash of \$3,948,125, evidenced by a non-interest bearing promissory note, to AIVtech Shareholders within 12 months after the closing of the transaction. The payment has been accounted for as dividend distribution to shareholders. On May 10, 2011, the Company entered into an agreement with former AIVtech shareholders to extend the dividend payment date to May 12, 2012.

Note 9 – DIVIDEND PAYABLE (continued)

Future payments of dividends will depend on the available earnings, the capital requirements of the Company, the Company's general financial condition and other factors deemed pertinent by the Board of Directors.

Note 10 – TAXES

(a) Corporation income tax ("CIT")

The Company's operating subsidiaries Shenzhen AIVtech and Dongguan AIVtech are governed by the Income Tax Law of the People's Republic of China concerning the privately run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments. Shenzhen AIVtech was formed in a special economic zone in Shenzhen and has been granted a favorable tax treatment by local taxing authority which stipulated a 100% income tax exemption for the first two years and 50% income tax exemption for the following consecutive three years ("tax holiday"). For the years ended December 31, 2010 and 2009, Shenzhen AIVtech enjoyed a favorable tax exemption policy and the effective income tax rate for Shenzhen AIVtech assessed by local tax authority was 11% and 10% for the years ended December 31, 2010 and 2009, respectively. Such favorite tax policy will expire on December 31, 2011.

The estimated tax savings as a result of the Company's tax holiday for the three and nine months ended September 30, 2011 amounted to \$393,733 and \$1,007,312, respectively. The net effect on earnings per share had the full statutory income tax rate been applied would decrease basic earnings per share from \$0.35 to \$0.33 for the nine months ended September 30, 2011. The estimated tax savings as a result of the Company's tax abatement for the three and nine months ended September 30, 2010 amounted to \$813,768 and \$1,529,776 respectively. The net effect on earnings per share had the full statutory income tax rate been applied would decrease basic earnings per share from \$0.64 to \$0.56 for the nine months ended September 30, 2010.

The Company's effective tax rate reflected the combined results for both Shenzhen AIVtech and Dongguan AIVtech. The following table reconciles the Company's PRC statutory tax rate to its effective tax rate for the nine months ended September 30, 2011 and 2010.

| | 2011 | 2010 |
|-------------------------------|--------|---------|
| Statutory PRC income tax rate | 25.0% | 25.0% |
| China income tax exemption | (9.7)% | (12.3)% |
| Effective income tax rate | 15.3% | 12.7% |

The parent Company AIVtech International Group Inc (formerly Ecochild Inc.) was incorporated in the United States. Net operating loss carry forwards for United States income tax purposes amounted to \$112,776 as of September 30, 2011, which are available to reduce future years' taxable income. These carry forwards will expire in 2031. However, the change in control resulting from the reverse acquisition in 2010 limits the amount of loss to be utilized each year. Management doesn't expect to remit any of its net income back to the United States in the foreseeable future. Accordingly, the Company recorded a full valuation allowance as of September 30, 2011. The components of deferred taxes as of September 30, 2011 and December 31, 2011 consist of the following:

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2011 | December 31, 2010 |
| Net operating loss carry-forwards for parent company | \$ 112,776 | \$ 51,818 |
| Valuation allowance | (112,776) | (51,818) |
| Net deferred tax asset | \$ - | \$ - |

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Note 10 – TAXES (CONTINUED)

(b) Value Added Taxes

The Company is subject to a value added tax (“VAT”) for selling merchandise. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT).

(c) Taxes payable

As of September 30, 2011 and December 31, 2010, taxes payable consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|---------------------|-----------------------|----------------------|
| Income tax payable | \$ 594,976 | \$ 237,841 |
| VAT tax payable | 237,465 | 536,769 |
| Other tax payable | 10,333 | 11,026 |
| Total taxes payable | \$ 842,774 | \$ 785,636 |

Note 11 – WARRANTS

The Company determined the fair value of the warrants was \$0.43 per share based on the closing price of the Company’s common stock traded on September 30, 2011, which totaling \$129,291. The fair value was determined using the Black Scholes Model based on the following assumptions: dividend yield: 0%; volatility: 205.97%, risk free rate: 0.96%, expected term: 4.25 years. For the three and nine months ended September 30, 2011, the Company recorded a gain of \$178,748 and \$170,201, respectively, in changes in the fair value of the warrants.

There were no stock warrants issued, terminated/forfeited, or exercised during the three and nine months ended September 30, 2011 and 2010.

The following table summarizes the shares of the Company’s common stock issuable upon exercise of warrants outstanding at September 30, 2011:

| Range of Exercise Price | Warrants Outstanding | | | Warrants Exercisable | | |
|-------------------------------|--|---|--|---|--|--|
| | Number Outstanding September 30, 2011 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable at September 30, 2011 | Weighted Average Exercise Price | |
| \$ 4.00 | 301,601 | 4.25 | \$ 4.00 | 301,601 | \$ 4.00 | |
| | 301,601 | 4.25 | \$ 4.00 | 301,601 | \$ 4.00 | |

See Note 4: “fair value of financial instruments” for more detail.

Note 12. EARNINGS PER SHARE

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income per share for the nine months ended September 30, 2011 and 2010:

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|-------------|---------------------------|-------------|
| | Sept 30, | | Sept 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income used in computing basic net income per share | \$3,265,477 | \$4,360,409 | \$7,933,536 | \$9,778,483 |
| Net income used in computing diluted net income per share | \$3,265,477 | \$4,360,409 | \$7,933,536 | \$9,778,483 |
| Denominator: | | | | |
| Shares used in computation of basic net income per share (weighted average common stock outstanding) | 22,515,334 | 20,000,000 | 22,514,680 | 15,364,430 |
| Dilutive potential common stock (under treasury stock method): | | | | |
| Effect of diluted warrants | - | - | - | - |
| Shares used in computation of diluted net income per share | 22,515,334 | 20,000,000 | 22,514,680 | 15,364,430 |
| Basic net income per share | \$0.14 | \$0.22 | \$0.35 | \$0.64 |
| Diluted net income per share | \$0.14 | \$0.22 | \$0.35 | \$0.64 |

The Company has outstanding warrants to acquire 301,601 shares of common stock. These shares are not included in the earnings per share calculation due to the anti-dilutive effect for the three and nine month ended September 30, 2011 using the treasury stock method.

Note 13. REGISTRATION RIGHTS AGREEMENT

Pursuant to the terms of exchange and registration rights agreements entered into in connection with the private placement offering on December 29, 2010, the Company agreed to file a Form S-1 registration statement with the Securities and Exchange Commission to register for resale (i) 100% of the purchased shares and (ii) 100% of the shares of the common stock underlying the warrants, within 30 calendar days following the closing of the offering, and use the Company's best efforts to have the registration statement declared effective within 180 calendar days after closing of the offering. If the registration Statement was not filed with the SEC by the required filing date or is not declared effective by the required effective date, the Company shall pay to each investor as liquidated damages, a cash payment equal to 2% of the aggregate amount invested by such investor in the offering on the first business day of each thirty (30) day period until the registration statement has been filed or declared effective, or a portion thereof. Such liquidated damages shall not exceed 10% per annum. Immediately before the expiration of the original required effective date, on September 30, 2011, the Company entered into agreement with investors and extended the Form S-1 effective date to December 31, 2011. As a result, the Company has not recorded any amounts with respect to this registration rights arrangement as of September 30, 2011.

Note 14. NON-CONTROLLING INTEREST

Non-controlling interest represents one minority shareholder's 30% ownership interest in Dongguan AIVtech Electronics Co., Ltd and 40% ownership interest in Henan AIVtech Electronics Co., Ltd. As of September 30, 2011

and December 31, 2010, non-controlling interest consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Original paid-in capital | \$ 1,048,187 | \$ 439,264 |
| Retained Earnings | 732,769 | 303,413 |
| Accumulated other comprehensive income | 207,392 | 102,749 |
| | \$ 1,988,347 | \$ 845,426 |

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Note 15. COMMON STOCK

On December 29, 2010, the Company entered into a subscription agreement with certain accredited investors in connection with a private placement offering:

(1) The Company agreed to issue to these investors to 2,513,334 shares of common stock, at par value of \$.001 and purchase price of \$3.00 per share, for aggregate gross proceeds of \$7,540,000.

(2) In addition, the Company also issued to these investors five-year Series A warrants to purchase up to an additional 251,334 shares of common stock at an exercise price of \$4.00 per share.

(3) The Company also paid to the placement agent a fee of \$150,800 and issued five-year Agent Warrants to purchase a total of 50,267 shares of common stock at an exercise price of \$4.00 per share.

(4) The Company also agreed to issue to the investors an aggregate of 2,513,334 shares of its common stock (the "Make Good Shares"), on a pro rata basis, for the benefit of the investors if the make good targets set forth in the subscription agreement are not met. With respect to the fiscal year ending December 31, 2010, if the Company did not achieve \$0.44 in earnings per share, then one-half of the Make Good Shares will be distributed to the investors on a pro rata basis. With respect to the fiscal year ending December 31, 2011, if \$0.60 in earnings per share is not achieved, then the other one-half of the Make Good Shares will be distributed to the investors on a pro rata basis.

In August, 2011, the Company entered into an agreement with the investors to amend the "Make Good Shares" provision in the subscription agreement whereby all parties agreed that the basic earnings per share as make good target for the year ending December 31, 2011 is reduced from \$.60 per share to \$.40 per share.

Note 16 – CONCENTRATIONS

Major Customers

Two customers accounted for 32.5% and 25.5% of the total sales for the nine months ended September 30, 2011, respectively. Three customers accounted for 34.3%, 31.5% and 12.4% of the total sales for the nine months ended September 30, 2010.

As of September 30, 2011, two customers accounted for 42.2% and 35.6% of the total outstanding receivables, respectively. As of December 31, 2010, two customers accounted for 79.8% and 9% of the total accounts receivable outstanding.

Major suppliers

For the nine months ended September 30, 2011, three material suppliers accounted for more than 36.4% of total purchases, with each supplier individually accounting for 21.1%, 8.9% and 6.5% of the total purchases. For the nine months ended September 30, 2010, three material suppliers accounted for more than 51% of total purchases, with each supplier individually accounting for 33%, 11%, and 7.4% of the total purchases.

Note 17 – SETTLEMENT AGREEMENT

On June 7, 2011, the Company and its subsidiary Shenzhen AIVtech were served with a Summons and Complaint filed by CCG Investor Relations in the Court of Beverly Hills of the State of California against the Company and Shenzhen AIVtech for breach of contract, seeking total damages of \$116,686, including \$79,866 for services rendered

by CCG, \$12,000 interest and \$25,000 for attorney's fees. On August 1, 2011, the Company entered into a settlement agreement with CCG and agreed to pay \$76,865 to CCG immediately in order for CCG to withdraw the lawsuit filed with the Court. The Company made the payment of \$76,865 on September 5, 2011 and CCG withdrew the lawsuit with the Court on September 7, 2011.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the results of operations and financial condition of AIVtech International Group Co. for the three and nine months ended September 30, 2011 and 2010 shall be read in conjunction with its financial statements and notes. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results of the timing of events could differ materially from those projected in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Special Note Regarding Forward-Looking Statements and Business sections in our Form 10-K as filed with the Securities and Exchange Commission on March 31, 2011. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report. Unless the context otherwise requires, the terms “we,” the “Company,” “us,” or “AIVtech” refer to AIVtech International Group Co. Unless otherwise indicated, all amounts herein are expressed in US Dollars.

Company Overview

We were incorporated on December 18, 2007 under the laws of the State of Nevada. Through our operating subsidiaries in China, we engage in the business of designing, manufacturing and selling electronic furniture, digital/multimedia speakers, and LCD/LED television under our own products brand – AIV, which stands for Audio & Interactive Video. Besides our own AIV brand, we also specialize in both original equipment manufacturing and original design manufacturing services. We integrate two traditional industries, which are electronics industry and furniture industry, into a new industry – electronic furniture industry.

In March 2011, our subsidiary Henan AIVtech Technology Company, Ltd. (“Henan AIVtech”) was formed by Shenzhen AIVtech, with a registered capital of RMB 50 million, or approximately \$7.6 million. As of September 30, 2011, a total capital contribution of RMB 10 million, or approximately \$1.5 million, was contributed to Henan AIVtech, of which RMB 6 million, or approximately \$0.9 million, was contributed by Shenzhen AIVtech and RMB 4 million, or approximately \$0.6 million, was contributed by Mr. Jinlin Guo, our President and Chief Executive Officer. As a result, we now directly control Henan AIVtech, a limited liability company organized under the laws of the PRC in March 2011. As of September 30, 2011, the Company has paid RMB 30 million to local government as land use right deposit. Henan AIVtech currently has no operations but will start to construct a manufacturing plant in Henan province once local government approves the land use right, which is expected by the end of December 2011. Accordingly, there were no operating activities reported for Henan AIVtech for the nine months ended September 30, 2011.

Critical Accounting Policies

Principles of consolidation

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries, AIVtech Holding (H.K.) Limited, Shenzhen AIV Electronics Co., Ltd., Dongguan AIV Electronics Co., Ltd, and Henan AIVtech Technology Company, Ltd. All significant inter-company balances and transactions are eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives and residual values of property and equipment, provision for doubtful accounts, provision necessary for contingent liabilities, fair values, revenue recognition, and other similar charges. Management believes that the estimates utilized in preparing its condensed consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

Fair value of financial instruments

The Company adopted the provisions of Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 – Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 – Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable, inventory, other receivables, accounts payable, long-term loan, taxes payable, other payables and accrued liabilities, dividends payable and due to related parties approximate their fair value due the short-term nature of these items. The warrant liability is measured at fair value using the Black-Scholes pricing model as further discussed below.

Revenue recognition

The Company recognizes revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. Revenue is not recognized until title and risk of loss is transferred to the customer, which occurs upon delivery of goods, and objective evidence exists that customer acceptance provisions have been met.

The Company sells its products to customers who have passed the Company’s credit check. Sales agreements are signed with each customer. The purchase price of products is fixed in the agreement. The Company makes custom products based on sales agreements, so no sales returns are allowed. The Company accepts returns one year from the date of shipment only in the event of defects. Historically, the Company has not experienced significant defects, and replacements for defects have been minimal. For the three and nine month ended September 30, 2011 and 2010, no sales returns and allowances have been recorded. Should returns increase in the future it would be necessary to adjust estimates, in which case recognition of revenues could be delayed.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

Accounts receivable

Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible amounts.

We grant credit to customers with good credit standings with a maximum term of 90 days. We determine the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. Provisions for doubtful accounts are assessed based upon a detailed review of all significant outstanding receivables

on an individual customer account basis. In the event the accounts become overdue, we would continue our best effort to collect from customers until events or circumstances indicate that the amounts might not be collectible, then we would record a full reserve against specific uncollectible amounts. Historically we have not experienced significant bad debt write-offs. Normally we collect over 90% of the outstanding account receivables within three months after invoicing with the remaining balances collected within 6 months. As of September 30, 2011, 51% of the account receivable balances were within the 1 – 30 days aging category and remaining 49% of the accounts receivable were within 31-60 days aging category. As of December 31, 2010, 100% of the account receivable balance was within the 1-90 days aging category. There were no events or other factors that led us to believe the outstanding account receivables were uncollectible. Accordingly we determined the reserve for doubtful accounts for the respective periods were not necessary.

Inventories

Inventories are stated at the lower of cost or market value, using the FIFO method. The cost of inventories comprises all costs of purchases, costs of labors, direct fixed and variable production overheads and other costs incurred in bringing the inventories to their present location and condition. The Company provides inventory reserves based on excess and obsolete inventories determined principally by customer demand.

Warrant liability

Our warrants are measured at fair value at each reporting period. We use the Black-Scholes valuation model to determine the fair value of warrants. The inputs for the Black-Scholes model require the use of significant assumptions, including 1) the expected term the warrants will be held before exercise, 2) discount rates, 3) volatility calculated based on the closing prices of our common stock traded in the open market. Changes in the daily closing prices of our common stock could have a material impact on the volatility calculations which could result in significant changes in the fair value of warrant liability. The following are the assumptions used in the Black-Scholes model to calculate the fair value of warrants:

| | September 30, 2011 | December 31, 2010 |
|--------------------------------------|-----------------------|----------------------|
| Stock Price | \$ 0.47 | \$ 4.02 |
| Exercise Price | \$ 4.00 | \$ 4.00 |
| Term | 4.25 | 5.00 |
| Volatility | 205.97% | 23.06% |
| Annual Rate of quarterly dividend | 0.00% | 0.00% |
| Discount rate - bond equivalent rate | 0.96% | 2.010% |
| Fair value per warrant | \$ 0.4287 | \$ 0.9930 |

Changes in one or more of the above assumptions can materially affect fair value of the warrants on the consolidated balance sheets; the changes in fair value of warrants would result in income or expenses on the consolidated statements of income and comprehensive income. We consider the inputs used to determine the fair value to be level 2 inputs within the fair value hierarchy established by GAAP.

Income taxes

The Company is governed by the Income Tax Law of the PRC and the U.S. PRC tax laws governing privately run enterprises are generally subject to a statutory tax rate of 25% after appropriate tax adjustments. AIVtech-Shenzhen was formed on May 18, 2006 in a special economic zone in Shenzhen and has been granted a favorable tax treatment by local tax authority which stipulated a 100% income tax exemption for the first two years and 50% income tax exemption for the following consecutive three years. Consequently, AIVtech-Shenzhen enjoyed a favorable tax exemption policy and the effective income tax rate for AIVtech-Shenzhen assessed by local tax authority was 11% and 10% for the nine months ended September 30, 2011 and 2010, respectively. AIVtech-Dongguan is now subject to 25% statutory income tax rate. The favorable income tax rate is assessed and reviewed by the local tax authority on a periodic basis and there is no guarantee that the Company will grant the same assessment after the current assessment expires on December 31, 2011.

The parent Company AIVtech International Group Inc was incorporated in the United States. It had no taxable income as of September 30, 2011. Net operating loss carry forwards for United States income tax purposes amounted to \$112,776 as of September 30, 2011, which are available to reduce future years' taxable income. These carry forwards will expire in 2031. However, due to the change in control resulting from the reverse acquisition in 2010 which limits the amount of loss to be utilized each year, management doesn't expect to remit any of its net income back to the United States in the foreseeable future. Accordingly, the Company recorded a full valuation allowance as of September 30, 2011.

Results of Operations

Results of Operations for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010

The following table presents certain information from the condensed consolidated statement of operations for the three months ended September 30, 2011 and 2010.

| | 2011 | 2010 | change | %change | |
|--|--------------|--------------|-------------|----------|---|
| Net sales | \$20,667,885 | \$27,419,290 | (6,751,405) | -24.62 | % |
| Cost of sales | (16,139,318) | (21,417,974) | 5,278,656 | -24.65 | % |
| Gross profit | 4,528,567 | 6,001,316 | (1,472,749) | -24.54 | % |
| Operating expenses | | | | | |
| Selling expense | (205,717) | (212,779) | 7,062 | -3.32 | % |
| General administrative expenses | (468,643) | (507,006) | 38,363 | -7.57 | % |
| Total operating expenses | (674,360) | (719,785) | 45,425 | -6.31 | % |
| Income from Operations | 3,854,207 | 5,281,531 | (1,427,324) | -27.02 | % |
| Other income (expenses) | | | | | |
| Change in fair value of warrants liability | 178,748 | - | | 100.00 | % |
| Interest income | 23,679 | 5,724 | 17,955 | 313.68 | % |
| Interest expenses | (331) | (5,035) | 4,704 | -93.43 | % |
| Total other income | 202,096 | 689 | 201,407 | 29231.79 | % |
| Income before income tax | 4,056,303 | 5,282,220 | (1,225,917) | -23.21 | % |
| Provision for Income taxes | (590,686) | (720,648) | 129,962 | -18.03 | % |
| Net income | 3,465,617 | 4,561,572 | (1,095,955) | -24.03 | % |

The following table sets forth the breakdown of our revenue, cost of sales, and gross profit by product category for the three months ended September 30, 2011 and 2010, respectively:

| Product categories | For the three months ended September 30, 2011 | | | | Gross profit % | September 30, 2010 | | | | Gross profit | Revenue |
|---------------------|---|---------|---------------|--------------|----------------|--------------------|---------------|--------------|--------------|--------------|---------|
| | Revenue | % | Cost of sales | Gross profit | | Revenue | Cost of sales | Gross profit | Gross profit | | |
| Furniture audio | 9,685,512 | 46.9 % | 7,113,599 | 2,571,913 | 26.6 % | 13,487,500 | 10,219,143 | 3,268,357 | 24.2 % | (3,8 | |
| Multi-media speaker | 5,828,737 | 28.2 % | 4,580,262 | 1,248,475 | 21.4 % | 3,362,057 | 2,358,773 | 1,003,284 | 29.8 % | 2,46 | |
| LED TV | 5,153,636 | 24.9 % | 4,445,457 | 708,179 | 13.7 % | 10,569,733 | 8840058 | 1,729,675 | 16.4 % | (5,4 | |
| Total | 20,667,885 | 100.0 % | 16,139,318 | 4,528,567 | 21.9 % | 27,419,974 | 21,419,974 | 6,001,316 | 21.9 % | (6,7 | |

The Company's products can be divided into three categories: casual furniture audio, multi-media speakers and LED TV. Furniture audio is the leading selling product of the Company, which accounted for about 46.9% of total sales for the three months ended September 30, 2011. In addition, sales of TV product decreased during the quarter as

compared to three months ended September 30, 2010. As a result, total sales for the three months ended September 30, 2011 was \$20,667,885 compared to \$27,419,290 for the same period in 2010, representing a decrease of \$6,751,405 or approximately 25%. The decrease in sales revenue was driven by fewer sales orders received from our customers than in the same quarter last year. The Company also obtained several large sales orders in September 2011, but these sales orders were still under manufacturing as of September 30, 2011 and will be delivered to customers by October 2011.

Sales revenue from furniture audio product decreased from \$13.49 million for the quarter ended September 30, 2010 to \$9.68 million for the same quarter ended September 30, 2011, representing \$3.80 million, or approximately 28% decrease in the third quarter this year as compared to the same quarter last year. In terms of quantity sold, quantity sold of furniture audio products decreased from 1,221,879 units during the quarter ended September 30, 2010 to only 763,278 units sold for the quarter ended September 30, 2011, representing 37.53% decrease. The decrease in furniture audio products during the period was due to decreased sales order received from distributors affected by competitive market environment. The Company's furniture audio product is primarily exported to U.S and European market through distributors and the quantity sold is affected by the overall economy conditions of these major markets. As the economy conditions in the U.S. and Europe went down, export demand for this product declined, accordingly, sales revenue went down for the quarter ended September 30, 2011 as compared to prior comparative period.

Sales revenue from multi-media speaker product increased from \$3.36 million for the quarter ended September 30, 2010 to \$5.83 million for the quarter ended September 30, 2011, representing \$2.46 million, or approximately 73% increase. The increase is contributed by increased orders of multi-media speaker product from one of the major distributors during the third quarter this year. In terms of quantity sold for multi-media speakers, 502,895 multi-media speakers were sold during the quarter as compared to only 342,320 items sold during the prior comparative period. Quantity sold increased 46.91% for this product.

Sales revenue from TV product also decreased from \$10.57 million for the quarter ended September 30, 2010 to only \$5.15 million for the quarter ended September 30, 2011. In terms of quantity sold, 71,443 units were sold in 2010 and only 32,907 items were sold during current quarter, representing 20.58% decrease. The Company just started to produce TV product in May 2010 and as a result, sales revenue for the quarter ended September 30, 2010 climbed as of September 30, 2010 because major distributor Guangdong Guanghong Import and Export Company ordered significant amount of TV products to be distributed to overseas market for the quarter ended September 30, 2010. However, during the quarter ended September 30, 2011, Guanghong reduced its orders on TV products because orders from 2011 first two quarters have not been fully distributed and accordingly Guanghong reduced orders on TV product in order to avoid inventory stockpile.

Cost of Sales

Cost of sales for the quarter ended September 30, 2011 was \$16,139,318 as compared to \$21,417,974 for the same quarter last year, a decrease \$5,278,656, or approximately 25%, especially the decrease in sales revenue of both TV product and furniture audio product, which led to decrease in cost of revenue related to these product categories. Cost of sales on multi-media product increased \$2.22 million because 160,575 more items were sold for this product during the quarter ended September 30, 2011, which led to more cost of sales were allocated on this product. However, as quantity sold for furniture audio and TV products decreased, cost of sales related to these two product sales decreased accordingly. Cost of sales on furniture audio product was \$7.11 million for the quarter ended September 30, 2011 as compared to \$10.22 million for prior comparative period, representing \$3.11 million decrease; cost of sales on TV product decreased \$4.40 million when comparing the same quarter in 2010.

Gross Profit

Total gross profit for the three months ended September 30, 2011 was \$4,528,567 (or 21.9% of revenue) as compared to \$6,001,316 (or 21.9% of revenue) for the same quarter in 2010, a decrease of \$1,472,749, or approximately 25%. The decrease of our gross profit was driven by the overall decrease in our sales revenue. In terms of product category sales, gross profit margin on furniture audio product, multi-media speaker and TV product was 26.6%, 21.4% and 13.7%, respectively.

The following table summarizes the gross profit by product categories:

| | For the three months ended September 30, | | | |
|---------------------|---|-----------|------------------------|----------|
| | 2011 | 2010 | Increase (Decrease) | % change |
| Gross profit | | | | |
| Multi-media speaker | 1,248,475 | 1,003,284 | 245,191 | 24.4 % |
| Furniture audio | 2,571,914 | 3,268,356 | (696,442) | (21.3 %) |
| TV product | 708,179 | 1,729,675 | (1,021,496) | (59.1 %) |
| Total | 4,528,568 | 6,001,315 | (1,472,747) | (24.5 %) |

Selling, General and Administrative Expense

The Company's selling and distribution expenses include: Advertising and promotion expenses, such as billboard and other physical advertising cost, and costs associated with showroom or exhibits; salary and commission paid to sales representatives; and shipping fees incurred to deliver the sales orders to customers

Selling expense for the quarter ended September 30, 2011 was \$205,717 as compared to \$212,779 for the same quarter in 2010, a decrease of \$7,062, or approximately 3.32%. The decrease is associated with lower amount of advertising expense incurred to promote the sales of our TV products than in prior comparative period.

General and administrative expense for the quarter ended September 30, 2011 was \$468,643 compared to \$507,006 for the same period in 2010, representing a decrease of \$38,363, or approximately 7.57%. Most of the general and administrative expense incurred during the quarter ended September 30, 2011 was consulting and professional fees paid to U.S. attorney, auditor and other service providers in connection with the Form S-1 filing and amendment and settle the litigation between the Company and CCG Investor Group, the Company also incurred certain expenses in newly formed subsidiary Henan AIVtech with regard the registration and application for the land use right.

Change in Fair Value of Warrants

The Company issued warrants to investors and placement agents in connection with the private placement offering on December 29, 2010. These warrants are marked to market at each reporting period. The Company determined the fair value of the warrants at December 29, 2010, the date of the issuance was \$1.40 per share. The Company determined the fair value of the warrants at September 30, 2011 was \$0.43 per share. Since the fair value of the warrants liability decreased, we recorded a gain of \$178,748 to reflect the change in the fair value of the warrants for the three months ended September 30, 2011. There were no warrants issued or outstanding for the same period in 2010.

Income Taxes

Income tax expense for the three months ended September 30, 2011 was \$590,686 as compared to \$720,648 for the same quarter last year, representing a decrease of \$129,962 or 18%. The decrease was mainly due to the decreased sales revenue and taxable income for the period indicated.

Net Income

Net income for the three months ended September 30, 2011 was \$3,465,617 as compared to \$4,561,572 for the same quarter last year, a decrease of \$1.1 million, or 24.0%. The decrease in net income was primarily due to decreased sales revenue in the third quarter of 2011.

Results of Operations for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010

The following table presents certain information from the condensed consolidated statement of operations of AIVtech International Group Co. for the nine months ended September 30, 2011 and 2010.

| | 2011 | 2010 | change | %change | |
|--|--------------|--------------|-------------|----------|---|
| Net sales | \$54,426,551 | \$56,101,695 | (1,675,144) | -2.99 | % |
| Cost of sales | (42,419,946) | (42,644,943) | 224,997 | -0.53 | % |
| Gross profit | 12,006,605 | 13,456,752 | (1,450,147) | -10.78 | % |
| Operating expenses | | | | | |
| Selling expense | (634,199) | (505,973) | (128,226) | 25.34 | % |
| General administrative expenses | (1,571,605) | (1,366,649) | (204,956) | 15.00 | % |
| Total operating expenses | (2,205,804) | (1,872,622) | (333,182) | 17.79 | % |
| Income from Operations | 9,800,801 | 11,584,130 | (1,783,329) | -15.39 | % |
| Other income (expenses) | | | | | |
| Change in fair value of warrants liability | 170,201 | - | | 100.00 | % |
| Interest income | 49,570 | 12,933 | 36,637 | 283.28 | % |
| Interest expenses | (22,807) | (11,362) | (11,445) | 100.73 | % |
| Total other income (expense) | 196,964 | 1,571 | 195,393 | 12437.49 | % |
| Income before income tax | 9,997,765 | 11,585,701 | (1,587,936) | -13.71 | % |
| Provision for Income taxes | (1,530,232) | (1,471,624) | (58,608) | 3.98 | % |
| Net income | 8,467,533 | 10,114,077 | (1,646,544) | -16.28 | % |

The following table sets forth the breakdown of our revenue, cost of sales, and gross profit by product category for the nine months ended September 30, 2011 and 2010, respectively:

| Product categories | For the nine months ended September 30, 2011 | | | | September 30, 2010 | | | |
|--------------------|---|---|---------------|----------------|--------------------|---------------|--------------|----------------|
| | Revenue | % | Cost of sales | Gross profit | Revenue | Cost of sales | Gross profit | Gross profit % |
| | | | | Gross profit % | | | | |

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| | | | | | | | | | | |
|-------------|--------------|--------|--------------|--------------|-------|--------------|--------------|--------------|-------|--|
| Furniture | | | | | | | | | | |
| audio | \$25,698,064 | 47.2 % | \$19,346,643 | \$6,351,421 | 24.7% | \$36,522,924 | \$26,973,227 | \$9,549,697 | 26.1% | |
| Multi-media | | | | | | | | | | |
| speaker | 14,149,588 | 26.0 % | 10,627,986 | 3,521,602 | 24.9% | 7,766,127 | 5,716,296 | 2,049,831 | 26.4% | |
| LED TV | 14,578,899 | 26.8 % | 12,445,317 | 2,133,582 | 14.6% | 11,812,644 | 9955421 | 1,857,223 | 15.7% | |
| Total | \$54,426,551 | 100.0% | \$42,419,946 | \$12,006,605 | 22.1% | \$56,101,695 | \$42,644,944 | \$13,456,751 | 24.0% | |

The Company's products can be divided into three categories: casual furniture audio, multi-media speakers and LEDTV. Furniture audio is the leading selling product of the Company, which accounted for about 47% of total sales for the nine months ended September 30, 2011. For the nine months ended September 30, 2011, the Company received fewer sales orders than in prior comparative period. As a result, total sales for the nine months ended September 30, 2011 was \$54,426,551, as compared to \$56,101,695 for the same period in 2010, a decrease of \$1,675,144 or approximately 3%.

Sales revenue from furniture audio product for the nine months ended September 30, 2011 was \$25.70 million as compared to \$36.52 million for the same period last year, a decrease \$10.82 million, or approximately 30%. The decrease in furniture audio products during the period was due to decreased sales order received from major distributors, also affected by competitive market environment. The Company's furniture audio product is primarily exported to U.S and European market through distributors and the quantity sold is affected by the overall economy conditions and customer demands of these major markets. As the economy conditions in the U.S. and Europe went down, export demand for this product declined accordingly. As a result, the Company's sales revenue from this product category declined.

Sales revenue from multi-media speaker product for the nine months ended September 30, 2011 was \$14.15 million as compared to \$7.77 million for the same period last year, an increase \$6.38 million, or approximately 82%. The increase is contributed by increased quantity sold from 822,938 unit sold for the nine months ended September 30, 2010 to 1,263,873 units sold during the nine months ended September 30, 2011.

Sales revenue from TV product for the nine months ended September 30, 2011 was \$14.58 million as compared to \$11.81 million for the same period of last year, an increase of \$2.77 million, or approximately 23%. The Company just started TV production in May 2010 and began to sell TV product in June 2010. As a result, total 79,443 sets of TV product have been sold during the nine months ended September 30, 2010 as compared to 94,195 sets of TV product have been sold for the nine months ended September 30, 2011, corresponding quantity sold increased 18.57%.

For the upcoming fourth quarter ended December 31, 2011, we anticipate a positive sales trend which will lead to an increase in our sales revenue due to our high product quality, more variety of product choice to target different customers, relatively stable unit sales price and more sales orders from customers.

Cost of Sales

Total costs of sales for the nine months ended September 30, 2011 was \$42,419,946 as compared to \$42,644,943 for the same period in 2010, a decrease of \$224,997, or approximately 1%. The Company's cost of goods sold primarily consisted of raw materials costs, direct labor costs and overhead costs. These costs are accumulated in a cost pool allocating to finished goods, and only transferred out as Cost of sales when finished goods are sold to customers. The decrease in cost of revenue was primarily affected by decreased sales of furniture audio product which led to less cost to be allocated, offset by increased sales of TV product which normally has higher cost and lower profit margin than the Company's other product category. Normally, cost of sales for TV product is higher than our other two categories of product due to higher production cost, especially higher raw material cost per unit. And the production costs and cost of sales per unit for our multimedia speaker and audio furniture products are within a relative stable range.

Gross Profit

Gross profit for the nine months ended September 30, 2011 was \$12.01 million (or 22.1% of revenue) as compared to \$13.46 million (or 24% of revenue) for the same period in 2010, a decrease of \$1.45 million, or approximately 10.8%. The decrease is driven by the overall decrease in sales revenue for the nine months ended September 30, 2011. In terms of product category sales, for the nine months ended September 30, 2011, total of 94,195 units of TV product have been sold as compared to only 79,443 units sold in the same period of 2010. The company began to produce TV from June 2010, the production cost for TV product are higher than other product categories and gross profit margin for this new product is lower than other mature products, which resulted an offset to the overall gross profit margin. For the nine months ended September 30, 2011, our gross profit margin on furniture audio product, multi-media speaker and TV product was 24.7%, 24.9% and 14.6%, respectively.

The following table summarizes the gross profit by product categories:

| Gross profit | For the nine months ended | | | |
|---------------------|---------------------------|------------|------------------------|----------|
| | September 30, | | | |
| | 2011 | 2010 | Increase (Decrease) | % change |
| Multi-media speaker | 3,521,602 | 2,049,831 | 1,471,771 | 71.8 % |
| Furniture audio | 6,351,422 | 9,549,697 | (3,198,275) | (33.5 %) |
| TV product | 2,133,582 | 1,857,223 | 276,359 | 14.9 % |
| Total | 12,006,606 | 13,456,751 | (1,450,145) | (10.8 %) |

Selling, General and Administrative Expense

Our selling and distribution expenses included advertising and promotion expenses, such as billboard and other physical advertising cost, and costs associated with our showroom or exhibits; salary and commission paid to sales representatives, and shipping fees incurred to deliver the sales orders to customers

Selling expense for the nine months ended September 30, 2011 was \$634,199 as compared to \$505,973 for the same period in 2010, an increase of \$128,126, or approximately 25.3%. The increase is associated with higher advertising expense to promote the sales of our TV products than in prior comparative period. Total advertising and promotion expense amounted to \$17,246 for the nine months ended September 30, 2011. In addition, the Company incurred more product testing and sampling expenses than in prior comparative period. Total product testing and sampling expense increased \$73,309 for the nine months ended September 30, 2011 as compared to prior comparative period.

General and administrative expense for the nine months ended September 30, 2011 was \$1,571,605 as compared to \$1,366,649 for the same period in 2010, an increase of \$204,956, or approximately 15%. The increase is associated with the general and administrative expenses incurred on our newly formed subsidiary Henan AIVtech, plus increased legal and accounting fees in connection with Form S-1 filing and amendment. The increase in our general and administrative expense was also affected by \$76,865 settlement payment paid to CCG Investor Group for service provided during prior year. After the Company made the payment to CCG, CCG withdrew the lawsuit filed with U.S. Court in September 2011.

Interest Income and Interest Expense

The interest income and interest expenses for the nine months ended September 30, 2011 were \$49,570 and \$22,123, as compared to \$12,933 and \$11,362 for the same period of last year, an increase of \$36,637 and \$10,761, or approximately 283% and 95%, respectively. The increased interest expenses is mainly due to our short term borrowing of RMB 6 million (approximate to \$913,385) from Shenzhen Top Finance Guaranty Investment Inc in order to pay the registered capital of newly formed subsidiary AIVtech-Henan. The loan was repaid in full with interest expenses amounted \$16,838 on June 27, 2011.

Change in Fair Value of Warrants

The Company issued warrants to investors and placement agents in connection with the private placement offering on December 29, 2010. These warrants are marked to market at each reporting period. The Company determined the fair value of the warrants at December 29, 2010, the date of the issuance was \$1.40 per share. The Company determined the fair value of the warrants at September 30, 2011 was \$0.43 per share. Since the fair value of the warrants liability decreased, we recorded a gain of \$170,201 to reflect the change in the fair value of the warrants in earnings for the nine months ended September 30, 2011. There were no warrants issued or outstanding for the same period in 2010.

Income Taxes

Income tax expense for the nine months ended September 30, 2011 was \$1,530,232 as compared to \$1,471,624 for the same period last year, an increase of \$58,608 or approximately 4.0%. The slightly increase was primarily affected by the exchange rate fluctuation used to convert the Company's functional currency Chinese Renminbi into our reporting currency US dollar.

Net Income

Net income was \$8,467,533 for the nine months ended September 30, 2011 as compared to \$10,114,077 for the same period of 2010, a decrease of \$1,646,544, or approximately 16.28%. The decrease in net income was primarily due to decreased sales revenue, increased cost of sales and increased operating expenses for the period indicated.

Liquidity and Capital Resources

Our U.S. based parent company is a holding company and does not have any operations of its own. The Company's liquidity and capital resources are primarily obtained through our operating subsidiaries located in PRC. The operating subsidiaries conduct all business transactions in PRC. From time to time funds are transferred among operating subsidiaries in PRC for operational needs without the requirement of obtaining third party approval. Although management does not expect to repatriate any of its earnings generated from the PRC operating subsidiaries to United States in the foreseeable future, there is no restriction as to transferring assets from our subsidiaries in PRC to our U.S. parent company. Since our operation is conducted primarily through our subsidiaries and they hold a majority of our operating assets, any significant transfer of net assets from the operating subsidiaries to the parent company would have a potential impact on the scope and the nature of our operation taken as whole.

At September 30, 2011 and December 31, 2010, our cash and cash equivalents was \$18,060,314 and \$7,079,221, respectively. Our principal sources of liquidity were cash generated from our operating activities, short-term borrowings, and cash received from the equity financing under private placement. Our working capital as of September 30, 2011 was approximately \$20,514,687, current assets totaled \$29,761,665 and current liabilities were \$15,042,070. The components of the \$10,981,093 increase in our cash and cash equivalents are reflected below.

| | For the nine months ended September 30, | |
|---|--|--------------|
| | 2011 | 2010 |
| Net cash provided by operating activities | \$ 8,441,002 | \$ 3,142,676 |
| Net cash used in investing activities | (4,263,066) | (180,421) |
| Net cash provided by (used in) financing activities | 7,036,231 | (3,566,457) |
| Effects of exchange rates on cash | 126,926 | 98,593 |
| Net change in cash | \$ 10,981,093 | \$ (505,609) |

Net Cash provided by Operating Activities

For the nine months ended September 30, 2011, our net cash provided by operating activities was \$8,441,002, including the following:

- 1) The increase in accounts payable of \$3.4 million primarily due to increased purchasing of materials on account for the period indicated. The Company purchased RMB 38.5 million of raw materials and components on account during the second quarter ended June 30, 2011 and put such purchases into production, in order to fulfill the sales orders to be delivered to customers in August, 2011. These outstanding accounts payables have not been fully paid to the suppliers because vendor's invoices have not been received or processed as of September 30, 2011 based on the terms of the purchase contract. The increase in accounts payables was in line with the increase in WIP inventory.
- 2) The increase in accounts receivable of \$3.05 million primarily due to our increased credit sales of our products to customers during the June to September period. We grant credit to customers with good credit standings with a maximum term of 90 days. There were no events or other factors that led us to believe the outstanding account receivables were uncollectible.
- 3) The increase in inventory of \$474,884 because we purchased certain materials and components and used them in our production in order to fulfill several sales orders to be delivered to our customer in October 2011.

Net Cash used in Investing Activities

Cash used in investing activities for the nine months ended September 30, 2011 amounted to \$4,623,066, primarily included \$4,617,700 deposit for land use right. As of September 30, 2010, our subsidiary Henan AIVtech paid RMB 30 million (approximately \$4,617,700) to local government as land use right deposit. Henan AIVtech currently has no operations but will start to construct a manufacturing plant in Henan province once local government approves the land use right, which is expected by the end of December 2011.

Net Cash provided by Financing Activities

Our net cash provided by financing activities for the nine months ended September 30, 2011 amounted to \$7,036,231. We received \$7.4 million net proceeds in January 2011 from a private placement offering filed on December 29, 2010. In addition, we borrowed RMB 6 million (approximately \$0.9 million) from a related party Shenzhen Top financing Company and used the amount to invest in Henan AIVtech as 60% paid-in capital on March 25, 2011 and repaid all amounts on June 27, 2011. We also repaid RMB 2 million short-term borrowings from the related party Shenzhen Top financing Company when the loan expired on February 25, 2011. Also, on June 30, 2011, we repaid RMB 5 million (approximately \$769,617) to a third party Dongguan Shilong Industrial Company. As a result, as of September 30, 2011, we did not have any long-term loan outstanding.

During the nine months ended September 30, 2011, we received RMB 4 million cash (approximately \$608,923) contributed by a minority shareholder and invested this amount to pay the registered capital for our new subsidiary AIVtech-Henan, located in Henan province of China. Our new subsidiary AIVtech-Henan was formed by AIVtech-Shenzhen and minority shareholder Mr. Guo Jinlin, with total paid-in capital of RMB 10 million, of which 60% was contributed by AIVtech-Shenzhen.

We anticipate that our available funds and cash flows generated from operations will be sufficient to meet our anticipated on-going operating needs for the next twelve months.

Our operating subsidiaries are primarily operated in PRC.

As of September 30, 2011 and December 31, 2010, our loan arrangements are indicated as follows:

| | June 30, 2011 | | December 31, 2010 |
|------------------------|------------------|----|----------------------|
| Long-term loan | - | | 757,311 |
| Due to related parties | 266,242 | | 529,166 |
| Total | \$ 266,242 | \$ | 1,286,477 |

On January 5, 2010, we obtained a loan from a third-party Dongguan Shilong Industrial Company for RMB 5 million (approximately to \$757,311) for the purpose of working capital needs. The loan has been repaid on March 31, 2011.

During the normal course of the business, from time to time, we temporarily borrow money from principal shareholders or officers to finance our working capital as needed. The amounts are usually unsecured, non-interest bearing and due on demand.

On March 25, 2011, Dongguan AIVtech entered into an loan agreement with Shenzhen Top Finance Guaranty Investment Inc., to borrow RMB 6 million (approximate to \$913,385) to pay the registered capital of newly formed subsidiary Henan AIVtech. The loan was repaid in full on June 27, 2011.

Shenzhen Top Finance Guaranty Investment Inc. is one of the major shareholders of the Company, and owns 10.38% of the total issued and outstanding common shares of the Company. As of September 30, 2011, total related party borrowings from Shenzhen Top Finance Guaranty Investment Inc. amounted to \$220,907.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements or any special purpose entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a-15 under the Exchange Act, our management, including our chief executive officer and our chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based on that evaluation we believe that our disclosure controls and procedures were not effective as of September 30, 2011, based on the material weakness described below:

- insufficient monitoring controls to determine the adequacy of our internal control over financial reporting and related policies and procedures;
- lack of competent financial management personnel with appropriate accounting knowledge and training;
- insufficient controls over our period-end financial close and reporting processes; and
- ineffective controls over the accounting for acquisitions.

In order to correct the foregoing deficiencies, we engaged consultants who are familiar with PRC GAAP and US GAAP to assist us in the preparation of financial statements in accordance with US GAAP. We also established an audit committee in September 2010. Despite the above steps we took to remediate the material weakness, we believe our disclosure controls and procedures were still not effective as of September 30, 2011. We intend to take steps to improve our internal audit staff so that the staff will become familiar with both US GAAP and establish effective internal controls. We anticipate that, because of the need to hire and train qualified accounting personnel, we will continue to use an independent consultant to assist us in preparing our financial statements in accordance with US GAAP.

We believe that the foregoing steps will remediate the significant deficiencies identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 5. Other Information.

As disclosed in the current report on Form 8-K that filed on December 31, 2010, we closed a private placement on December 29, 2010 by entering subscription agreements with certain investors.

On June 29, 2011, we entered into agreements with the investors pursuant to which extended the Form S-1 required effective date from June 30, 2011 to September 30, 2011. On September 28, we entered into agreements with the investors pursuant to which extended the Form S-1 required effective date from September 30, 2011 to December 31, 2011.

Item 6. Exhibits.

Exhibit

| No. | Description |
|---------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| 32.2 | Certification of Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

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.

AIVTECH INTERNATIONAL GROUP CO.

Date: November 14, 2011

By: /s/ Jinlin Guo
Jinlin Guo
President, Chief Executive Officer
and
Chairman of the Board of Directors
(Duly Authorized Officer and
Principal Executive Officer)

Date: November 14, 2011

By: /s/ Yilin Shi
Yilin Shi
Chief Financial Officer
(Duly Authorized Officer and Principal
Accounting Officer)