China Information Security Technology, Inc.
Form 10-Q
August 04, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **June 30, 2010**

[ ] 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: **001-34076**

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	**98-0575209**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

21st Floor, Everbright Bank Building
Zhuzilin, Futian District
Shenzhen, Guangdong, 518040
People s Republic of China
(Address of principal executive offices, Zip Code)

(+86) 755-8370-8333
(Registrant s telephone number, including area code)

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 [X] 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 [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

Yes [ ] No [X]

The number of shares outstanding of each of the issuer s classes of common stock, as of August 4, 2010 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.01 par value	51,805,787

CHINA INFORMATION SECURITY TECHNOLOGY, INC.

Quarterly Report on FORM 10-Q
Three and Six Months Ended June 30, 2010

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FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND DECEMBER 31, 2009
Expressed in U.S. dollars
(Except for share and per share amounts)

	NOTES	June 30 2010 (Unaudited)	December 31 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 17,745,272	$ 13,478,633
Restricted cash		5,795,203	5,859,910
Accounts receivable:			
Billed, net of allowance for doubtful accounts of $2,944,000 and $3,123,000, respectively		24,114,664	23,907,035
Unbilled		58,149,465	47,851,638
Bills receivable		218,622	-
Advances to suppliers		4,084,692	6,924,035
Amount due from related parties, net of allowance for doubtful accounts of $0 and $73,000, respectively	6	158,467	129,937
Inventories, net of provision of $183,000 and $184,000,respectively	7	20,985,556	10,936,004
Other receivables and prepaid expenses		14,751,936	15,405,089
Deferred tax assets	12	1,622,613	1,719,327
TOTAL CURRENT ASSETS		147,626,490	126,211,608
Deposit for software purchase		4,797,561	1,426,452
Deposit for purchase of land use rights		925,912	-
Long-term investments	8	2,873,722	2,862,016
Property, plant and equipment, net	9	62,612,136	53,586,514
Land use rights, net	10	2,123,702	1,907,611
Intangible assets, net	10	13,138,669	13,556,141
Goodwill		50,067,871	50,609,866
Deferred tax assets	12	428,336	668,730
TOTAL ASSETS		$ 284,594,399	$ 250,828,938
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term bank loans	11	$ 22,121,740	$ 15,927,780
Accounts payable		17,115,384	20,159,317
Bills payable		10,605,305	12,658,029
Advances from customers		3,266,171	3,950,744
Amount due to related parties, current portion	6	667,138	583,736
Accrued payroll and benefits		1,609,966	3,142,240
Other payables and accrued expenses		14,969,739	14,252,918
Contingent consideration, current portion	4	1,568,437	1,857,994
Income tax payable		3,875,563	3,290,245
TOTAL CURRENT LIABILITIES		75,799,443	75,823,003
Long-term bank loans	11	4,036,020	1,907,100

Amount due to related parties, long-term portion	6	5,015,528	-
Contingent consideration, net of current portion	4	2,224,685	2,635,397
Deferred tax liabilities	12	1,896,337	2,564,604
TOTAL LIABILITIES		88,972,013	82,930,104
COMMITMENTS AND CONTINGENCIES		-	-

(CONTINUED)

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND DECEMBER 31, 2009 (CONTINUED)
Expressed in U.S. dollars
(Except for share and per share amounts)

EQUITY

Common stock, par $0.01; authorized capital 200,000,000 shares; shares issued and outstanding 2010: 51,811,787: 2009: 49,905,141shares	13	$ 252,615	$ 233,548
Treasury stock, 6,000 shares, at cost		(11,468)	(11,468)
Additional paid-in capital		89,128,945	78,495,062
Reserve		8,345,371	8,345,371
Retained earnings		76,095,452	60,462,275
Accumulated other comprehensive income		6,020,572	5,016,575
Total equity of the Company		179,831,487	152,541,363
Non-controlling interest		15,790,899	15,357,471
Total equity		195,622,386	167,898,834
TOTAL LIABILITIES AND EQUITY		284,594,399	250,828,938

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (Unaudited)
Expressed in U.S. dollars
(Except for share and per share amounts)

	NOTES	Three Months Ended		Six Months Ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue - Products		$ 7,471,511	$ 3,789,288	$ 13,819,481	$ 6,610,416
Revenue - Software		22,406,236	15,921,487	37,584,868	24,932,952
Revenue - System integration		3,485,523	5,571,619	6,269,406	8,527,076
Revenue - Others		153,618	505,525	1,148,240	697,659
TOTAL REVENUE		33,516,888	25,787,919	58,821,995	40,768,103
Cost - Products sold		5,813,701	3,007,849	11,054,123	5,620,640
Cost - Software sold		10,257,690	5,993,637	16,659,101	8,694,577
Cost - System integration		570,721	4,395,011	3,046,531	6,540,763
Cost - Others		76,470	124,671	146,481	162,108
TOTAL COST		16,718,582	13,521,168	30,906,236	21,018,088
GROSS PROFIT		16,798,306	12,266,751	27,915,759	19,750,015
Administrative expenses		(2,621,501)	(2,304,376)	(5,391,532)	(4,520,723)
Research and development expenses		(560,649)	(720,411)	(1,130,080)	(1,224,263)
Selling expenses		(1,489,212)	(644,349)	(2,703,774)	(1,238,064)
INCOME FROM OPERATIONS		12,126,944	8,597,615	18,690,373	12,766,965
Subsidy income		268,898	318,071	431,680	515,860
Other (loss)/income, net	4	(324,700)	(16,845)	642,099	164,521
Interest income		10,403	120,627	29,294	197,544
Interest expense		(263,756)	(56,443)	(412,647)	(116,653)
INCOME BEFORE INCOME TAXES		11,817,789	8,963,025	19,380,799	13,528,237
Income tax expense	12	(2,163,609)	(1,091,800)	(3,334,692)	(1,680,196)
NET INCOME		9,654,180	7,871,225	16,046,107	11,848,041
Less: Net income attributable to the non-controlling interest		(302,111)	(73,395)	(412,930)	(293,218)
NET INCOME ATTRIBUTABLE TO THE COMPANY	3	$ 9,352,069	$ 7,797,830	$ 15,633,177	$ 11,554,823
Weighted average number of shares					
Basic	3	51,450,623	47,536,883	51,332,698	47,528,503
Diluted	3	51,450,623	47,536,883	51,332,698	47,528,503
Earnings per share - Basic and Diluted					
		$ 0.18	$ 0.16	$ 0.30	$ 0.24

Basic - Net income attributable to the Company's common stockholders								
Diluted - Net income attributable to the Company's common stockholders	$	0.18	$	0.16	$	0.30	$	0.24

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (Unaudited)
Expressed in U.S. dollars
(Except for share and per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net income	$ 9,654,180	$ 7,871,225	16,046,107	$ 11,848,041
Other comprehensive income:				
Foreign currency translation gain	787,465	(16,365)	1,024,495	435,377
Comprehensive income	10,441,645	7,854,860	17,070,602	12,283,418
Comprehensive income attributable to the non-controlling interest	(322,572)	(73,310)	(433,428)	(293,133)
Comprehensive income attributable to the Company	$ 10,119,073	$ 7,781,550	16,637,174	$ 11,990,285

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 (Unaudited)
Expressed in U.S. dollars
(Except for share and per share amounts)

	Common stock Par value $0.01 Shares	Common stock Par value $0.01 Amount	Treasury stock Par value $0.01 Shares	Treasury stock Par value $0.01 Amount	Additional Paid-in Capital	Reserve	Retained earnings	Accumulated other comprehensive income	No contro inte
BALANCE AS AT JANUARY 1, 2010	**49,905,141**	**$ 233,548**	**(6,000)**	**$ (11,468)**	**$ 78,495,062**	**$ 8,345,371**	**$ 60,462,275**	**$ 5,016,575**	**$ 15,35**
Issuance of common stock in private placements (Note 13)	1,652,033	16,520	**-**	**-**	9,113,232	**-**	**-**	-	
Common stock issued upon the exercise of warrants (Note 13)	41,250	413	-	-	253,275	-	-	-	
Stock-based compensation (Note 13)	213,363	2,134	-	-	1,267,376	-	-	-	
Net income for the period	-	-	-	-	-	-	15,633,177	-	41
Foreign currency translation gain	-	-	-	-	-	-	-	1,003,997	2
BALANCE AS AT JUNE 30, 2010	**51,811,787**	**$ 252,615**	**(6,000)**	**$ (11,468)**	**$ 89,128,945**	**$ 8,345,371**	**$ 76,095,452**	**$ 6,020,572**	**$ 15,79**

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (Unaudited)
Expressed in U.S. dollars
(Except for share and per share amounts)

	Six Months Ended	
	June 30, 2010	**June 30, 2009**
OPERATING ACTIVITIES		
Net income	$ 16,046,107	$ 11,848,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,441,071	1,852,357
Amortization of intangible assets	927,048	865,710
Stock-based compensation	-	183,600
Loss on disposal of property and equipment	320,957	31,764
Change in allowance for accounts receivable	267,716	573,881
Reversal of write-down of inventories	(1,362)	-
Change in deferred income tax	215,192	(29,517)
Change in fair value of contingent consideration	(700,268)	-
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Decrease in restricted cash	457,202	-
Increase in accounts receivable	(10,656,507)	(14,665,591)
Decrease / (increase) in advances to suppliers	2,091,453	(3,028,042)
Decrease / (increase) in other receivables and prepaid expenses	313,302	(1,540,531)
Increase in inventories	(10,164,333)	(1,657,773)
(Decrease) / increase in accounts payable	(5,209,216)	4,643,442
(Decrease) / increase in advances from customers	(695,808)	4,469,480
Increase in amount due to related parties	5,311,077	177,621
Increase / (decrease) in other payables and accrued expenses	921,098	(432,401)
Increase in income tax payable	569,611	695,912
Net cash provided by operating activities	**3,454,340**	**3,987,953**
INVESTING ACTIVITIES		
Increase in restricted cash related to bank borrowings	(368,895)	-
Proceeds from sales of property and equipment	44,007	100,225
Proceeds from sale of short-term investments	-	5,862,800
Refund of investment in former Joint Venture	-	4,397,100
Purchase of land-use-rights	(230,970)	-
Purchases of property and equipment	(11,038,575)	(630,478)
Capitalized and purchased software development costs	(432,547)	(308,484)
Deposit for software purchase	(4,777,693)	(4,781,846)
Deposit for purchase of land-use-rights	(165,093)	-
Net cash (used in) / provided by investing activities	**(16,969,766)**	**4,639,317**
FINANCING ACTIVITIES		
Borrowing of short-term loans	21,003,299	1,898,082
Borrowing of long-term loans	4,019,306	-
Repayment of short-term loans	(14,887,816)	(732,850)
Repayment of long-term loans	(1,906,970)	-
Issued common stock	9,383,440	-

Repurchase of common stock	-	(11,468)
Net cash provided by financing activities	**17,611,259**	**1,153,764**

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CHINA INFORMATION SECURITY TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (CONTINUED) (Unaudited)
Expressed in U.S. dollars
(Except for share and per share amounts)

	Six Months Ended			
		June 30, 2010		June 30, 2009
Effect of exchange rate changes on cash and cash equivalents		**170,806**		**30,757**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,266,639**		**9,811,791**
CASH AND CASH EQUIVALENTS, BEGINNING		**13,478,633**		**9,565,252**
CASH AND CASH EQUIVALENTS, ENDING	$	**17,745,272**	$	**19,377,043**

Supplemental disclosure of cash flow information:

	Six Months Ended			
		June 30, 2010		June 30, 2009
Cash paid during the period				
Income taxes	$	**2,547,020**	$	**1,013,801**
Interest paid	$	**449,494**	$	**117,327**

Supplemental disclosure of significant non-cash transactions:

On January 12, 2010, the Company granted eligible employees a total of 213,363 shares of the Company's common stock as compensation under the China Information Security Technology, Inc. 2007 Equity Incentive Plan (The Plan). The fair value of these shares of approximately $1.3 million, based on the quoted market price, was accrued as of December 31, 2009 as the compensation was for services provided in 2009.

On February 2, 2009, the Company granted eligible employees a total of 60,000 shares of the Company s common stock as compensation under the Plan. The fair value of these shares of $183,600 based on quoted market price was recognized as stock-based compensation for the six months ended June 30, 2009.

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Expressed in U.S. dollars
(Except for share and per share amounts)

1. ORGANIZATION AND BASIS OF PRESENTATION

China Information Security Technology, Inc. (the Company or CIST), together with its subsidiaries, is a total solution provider of digital security, geographic, and hospital information systems in the People's Republic of China (PRC). The Company s total solutions include specialized software, hardware, systems integration, and related services organized into three business segments Geographic Information Systems (GIS), Digital Information Security Technology (DIST) and Digital Hospital Information System (DHIS). These total solutions are provided through the Company s wholly-owned PRC subsidiaries, Information Security Technology (China) Co., Ltd (IST), Information Security Software (China) Co., Ltd (formerly, Information Security Development Technology Co., Ltd), or ISS, Shenzhen Bocom Multimedia Display Technology Co., Ltd (Bocom), Shenzhen Zhongtian Technology Development Company Ltd (Zhongtian), and Huipu Electronics (Shenzhen) Co., Ltd. ("Huipu"), and through the Company s variable interest entity (VIE), iASPEC Software Co, Ltd (iASPEC), and Wuda Geoinformatics Co., Ltd (Geo), 57% o which is owned by iASPEC.

The operating results of Bocom, Geo, Zhongtian and Huipu have been included in the Company s consolidated financial statements since February 1, 2008, April 1, 2008, November 1, 2008, and November 1, 2009, their respective acquisition dates.

The amounts of Topwell and Huipu s revenue and earnings included in the Company s consolidated income statement for the three and six months ended June 30, 2010, and the revenue and earnings in the same period of the combined entities had the acquisition date been January 1, 2009 are:

	Three Months ended				Six Months ended			
	Revenue	Earnings /(losses)	EPS Basic	EPS Diluted	Revenue	Earnings /(losses)	EPS Basic	EPS Diluted
June 30, 2010, actual	$ 33,516,888	9,352,069	0.18	0.18	$ 58,821,995	15,633,177	0.30	0.30
June 30, 2009, supplemental pro forma	$ 30,201,905	8,103,012	0.17	0.16	$ 49,596,075	12,159,495	0.25	0.25

The interim condensed consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2010. It is suggested that these interim consolidated financial statements be read in conjunction with the financial statements of the Company and related notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 and notes thereto. The Company follows the same accounting policies in the preparation of interim reports.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles. The consolidated financial statements include the accounts of the Company, its subsidiaries and its VIE for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Foreign Currency Translation

The functional currency of the U.S. and British Virgin Islands (BVI) companies is the United States dollars. The functional currency of the Company s Hong Kong subsidiaries is the Hong Kong dollars.

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Expressed in U.S. dollars
(Except for share and per share amounts)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign Currency Translation (continued)

The functional currency of the Company s wholly-owned PRC subsidiaries and its VIE is the Chinese Renminbi Yuan, (RMB). RMB is not freely convertible into foreign currencies. The Company s PRC subsidiaries and their VIE s financial statements are maintained in the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet date. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes the financial statements of the Company have been translated into United States dollars. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at average exchange rates, and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of equity.

(c) Revenue Recognition

The Company generates its revenues primarily from three sources, (1) hardware sales, (2) software sales and (3) system integration services. The Company's revenue recognition policies are in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No.605.35 ("FASB ASC 605.35") .

Revenues from hardware products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred and upon receipt of customers' acceptance, the price to the customer is fixed or determinable in accordance with the contract, and collectability is reasonably assured.

Software revenues are generated from fixed-price contracts which include the development of software products, and services to customize such software to meet customers' needs. Generally, when the services are determined to be essential to the functionality of the delivered software, revenue is recognized using the percentage of completion method of accounting in accordance with FASB ASC 605.35. The percentage of completion for each contract is estimated based on the ratio of direct labor hours incurred to total estimated direct labor hours. The Company provides post contract support (PCS), which includes telephone technical support, that is not essential to the functionality of the software. Although vendor-specific objective evidence does not exist for PCS, because (1) the PCS fees are included in the total contract amount, (2) the PCS service period is for less than one year, (3) the estimated cost of providing PCS is not significant, and (4) unspecified upgrades/ enhancements offered are minimal and infrequent; the Company recognizes PCS revenue together with the initial fee after delivery and customer acceptance of the software products.

System integration revenues are generated from fixed-price contracts which provide for software development and hardware integration, which involves more than minor modifications to the functionality of the software and hardware products. Accordingly, system integration revenues are accounted for in accordance with FASB ASC 605.35, using the percentage of completion method of accounting. The percentage of completion for each contract is estimated based on the ratio of costs incurred to total estimated costs. Contract periods are usually less than six months, and typical contract periods for PCS are 12 months.

System integration projects are billed in accordance with contract terms, which typically require partial payment at the signing of the contract, at delivery and customer acceptance dates, with the remainder due within a stated period of time not exceeding 12 months. Occasionally, the Company enters into contracts which allow a percentage of the total contract price to be paid one to three years after completion of the system integration project. Revenues on these extended payments are recognized upon completion of the terms specified in the contract and when collectability is reasonably assured.

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Expressed in U.S. dollars
(Except for share and per share amounts)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue Recognition (continued)

No rights of return are allowed except for non-conforming products, which have been insignificant based on historical experiences. If non-conforming products are returned due to software issues, the Company will provide upgrades or additional customization to suit customers' needs. In cases where non-conformity is a result of integrated hardware, the Company returns the hardware to the original vendor for replacement.

Unbilled accounts receivable consist of estimated future billings for work performed but not yet invoiced to the customer. Unbilled accounts receivable are generally invoiced within one year of completion of the work performed. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When the Company's estimates indicate that the entire contract will be performed at a loss, a provision for the entire loss is recorded in the current accounting period.

Other revenue mainly consists of income derived from maintenance service and royalty income.

(d) Treasury Stock

The Company repurchases its common stock from time to time in the open market and holds such shares as treasury stock. The Company applies the cost method and presents the cost to repurchase such shares as a reduction in shareholders equity. As of June 30, 2010, the Company has repurchased 6,000 shares of common stock.

(e) Recent Accounting Pronouncements

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, Revenue Recognition - Milestone Method (Topic 605) - Revenue Recognition (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for interim and annual periods beginning after June 15, 2010 and should be applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2010-17 on our consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, as an amendment to Accounting Standards Codification (ASC) Topic 855, Subsequent Events (ASC 855). As a result of ASU 2010-09, SEC registrants will not disclose the date through which management evaluated subsequent events in the financial statements. ASU 2010-09 is effective immediately for all financial statements that have not yet been issued or have not yet become available to be issued, or June 30, 2010 for the Company. The adoption of ASU 2010-09 is for disclosure purposes only and did not have any effect on the Company s financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820, Fair Value Measurement and Disclosure (ASC 820) to require a number of additional disclosures regarding fair value measurements. In addition to the new disclosure requirements, ASU

2010-06 also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010-06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities.

ASU 2010-06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuance and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all of the provisions of ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, or January 1, 2010 for the Company. The requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements does not become effective until fiscal years beginning after December 15, 2010, or January 1, 2011 for the Company. The adoption of ASU 2010-06 is for disclosure purposes only and did not have any effect on the Company s financial position or results of operations.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Recent Accounting Pronouncements (continued)

In June 2009, the FASB issued guidance now codified within ASC Topic 810, Consolidation (ASC 810). ASC 810 requires entities to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as one with the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and obligation to absorb losses of the entity that could potentially be significant to the variable interest. The guidance is effective as of the beginning of the annual reporting period commencing after November 15, 2009, or January 1, 2010 for the Company, with early adoption prohibited. The adoption of the guidance codified within ASC 810 did not have any effect on the Company s financial position or results of operations.

3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock that shared in the earnings of the entity. For purposes of the computation of net income per share, shares issued in connection with acquisitions that are returnable are considered contingently returnable shares under FASB ASC 260, although classified as issued and outstanding, are not included in the basic weighted average number of shares until all necessary conditions are met that no longer cause the shares to be contingently returnable. These contingently returnable shares are included in the diluted weighted average number of shares as of the beginning of the period in which the conditions were satisfied (or as of the date of the agreement, if later).

Components of basic and diluted earnings per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Unaudited)
Net income attributable to the common stockholders	$ 9,352,069	$ 7,797,830	$ 15,633,177	$ 11,554,823
Weighted average outstanding shares of common stock	51,450,623	47,536,883	51,332,698	47,528,503
Dilutive effect of options ,warrants, and contingently issuable shares	-	-	-	-
Common stock and common stock equivalents	51,450,623	47,536,883	51,332,698	47,528,503
Earnings per share:				
Basic	$ 0.18	$ 0.16	$ 0.30	$ 0.24
Diluted	$ 0.18	$ 0.16	$ 0.30	$ 0.24

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4. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE ACCOUNTING

Financial Instruments

Management has estimated that the carrying amounts of non-related party financial instruments approximate their fair values due to their short-term maturities. The fair value of the amount due from (to) related parties is not practicable to estimate due to the related party nature of the underlying transactions.

Fair Value Accounting

FASB ASC 820.10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). As required by FASB ASC 820.10, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under FASB ASC 820.10 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

At June 30, 2010, the contingent consideration in relation to the purchase of Topwell Treasure Ltd. ("Topwell") and its wholly-owned Chinese subsidiary, Huipu Electronics (Shenzhen) Co., Ltd. ("Huipu") in 2009 was measured at fair value.

The fair value estimate of the contingent consideration is based on the weighted probability (level 3 input) of achievement of After Tax Net Income targets (ATNI) in 2010, 2011 and 2012, which could result in the issuance of up to 1,101,930 additional shares of the Company s common stock. Actual achievement of ATNI below $3.2 million would reduce the liability to zero and achievement of ATNI of $6.8 million or more would increase the liability to $6.8 million. As of June 30, 2010, the fair value of the current portion of this contingent consideration is $1,568,437, compared to $1,857,994 at December 31, 2009. The fair value of none-current portion of the contingent consideration is $2,224,685, compared to $2,635,397 at December 31, 2009. A change in fair value of the acquisition-related contingent consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate. Included in other loss in the three months ended June 30, 2010 is a loss of $90,000 and included in other income in the six months ended June 30, 2010 is a gain of $700,000, due to the change in estimate of the fair value of acquisition-related contingent consideration.

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5. VARIABLE INTEREST ENTITY

The Company is the primary beneficiary of iASPEC, pursuant to the Management Service Agreement (MSA), and iASPEC qualifies as a variable interest entity of the Company. Accordingly, the assets and liabilities and revenues and expenses of iASPEC have been included in the accompanying consolidated financial statements.

In order to facilitate iASPEC s expansion and also to provide financing for iASPEC to complete the acquisition of Geo, the Company advanced RMB38 million (approximately $5.4 million) to iASPEC in two installments on November 20, 2007 and May 8, 2008, respectively, to increase iASPEC s registered capital. In order to comply with PRC laws and regulations, the advance was made to Mr. Lin, iASPEC s then majority shareholder, who, upon the authority and direction of the Board of Directors, forwarded the funds to iASPEC. The Company has recorded the advance of these funds as an interest-free loan to iASPEC, which was eliminated against additional capital of iASPEC in consolidation. The increase in iASPEC s registered capital does not affect IST s exclusive option to purchase iASPEC s assets and shares under the MSA.

For the three and six months ended June 30, 2010, net income of $302,111 ($284,421 from iASPEC and $17,690 from Geo), $412,930 ($419,219 from iASPEC and loss of $6,289 from Geo), respectively was attributable to non-controlling interest in the consolidated statements of income of the Company.

For the same period of year 2009, net income of $73,395 ($45,000 from iASPEC and $28,395 from Geo) and $293,218 ($90,000 from iASPEC and $203,218 from Geo), respectively was attributable to non-controlling interest in the consolidated statements of income of the Company

At June 30, 2010, the consolidation of iASPEC and Geo, resulted in an increase in assets of approximately $53.3 million, an increase in liabilities (consisting primarily of accounts payable and short-term bank loans) of approximately $22.1 million. The assets of these entities consist mainly of cash at bank, trade and other receivables, inventories and property, plant and equipment. The creditors of these entities do not have recourse to the general credit of the Group. The Group will provide all of the needed financing for the VIEs.

6. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party balances

As of June 30, 2010 and December 31, 2009, amount due from (to) related parties consists of:

	June 30, 2010 (Unaudited)	December 31, 2009
Due from related companies		
- Xiamen Yili Geo Information Technology Co., Ltd.	$ 18,854	$ -
- Shenzhen Kewen Information Technology Co., Ltd.	139,613	129,937
	$ 158,467	$ 129,937

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6. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(a) Related party balances (Continued)

	June 30, 2010 (Unaudited)	December 31, 2009
Due to related companies, current portion		
- Shenzhen Information Security Investment and Development Co., Ltd.	$ 88,380	$ -
- Xiamen Yili Geo Information Technology Co., Ltd.	-	7,335
- Wuhan Geo Navigation and Communication Technology Co., Ltd.	578,758	576,401
	$ 667,138	$ 583,736
Due to related party, long-term portion		
- Shareholder	$ 5,015,528	$ -

Due from related companies, current portion

Approximately 8% of Xiamen Yili Geo Information Technology Co., Ltd. (Yili) is owned by Geo. The balance consists of accounts receivable from sales during the three and six months ended June 30, 2010.

Shenzhen Kewen Information Technology Co., Ltd. (Kewen) is a private company owned by a member of the senior management of Zhongtian. The balance due from Kewen primarily consists of accounts receivable from sales during the three and six months ended June 30, 2010.

Due to related companies, current portion

Shenzhen Information Security Investment and Development Co., Ltd. (ISID) is a company under the control of Mr Lin. The balance due to ISID represents advances from ISID to Bocom. These advances are non-interest bearing and due on demand.

Approximately 9% of Wuhan Geo Navigation and Communication Technology Co., Ltd. (Geo Navigation) is owned by Geo. The balance due to Geo Navigation represents advances from Geo Navigation to Geo. These advances are non-interest bearing and due on demand.

Due to related party, long-term portion

The balance due to shareholder represents the personal loans from Mr. Jianghuai Lin (Mr. Lin), the CEO of the Company, to the Company as of June 30, 2010.

On January 14, 2010, Mr. Lin loaned the Company a total of $5 million from the proceeds of the sale of his shares for use for general corporate purposes and working capital. In consideration of the loan from Mr. Lin, the Company's Board of Directors approved the issuance and delivery of a one-year, non-interest bearing, convertible promissory note (the Original Note) to Mr. Lin, in the principal amount of $5 million The note is due and payable on January 14, 2011, and is convertible into shares of the Company's common stock at a conversion price of $5.88 per share (the per share closing price on the trading day prior to the delivery date of the Original Note).

On March 25, 2010, Mr. Lin surrendered the Original Note to the Company and has asked the Company to void and rescind the Original Note, and issue a replacement note (the New Note), in the principal amount of $6,000,000, to reflect the principal amount of the Original Note as well as an additional loan of $1,000,000 made to the Company on March 25, 2010.

The New Note has omitted the conversion feature that was contained in the Original Note and it is non-interest bearing. The maturity date of the New Note is March 5, 2012 and the Company may prepay all or any part of the amounts outstanding under this Note at any time before the maturity date without the express written consent of Mr. Lin.

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6. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(b) Revenue - related party

Amount earned from Kewen and Yili during the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30, 2010 (Unaudited)	Three Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2010 (Unaudited)	Six Months Ended June 30, 2009 (Unaudited)
Revenue	$ 194,772	$ 50,900	$ 219,664	$ 75,772
Cost of sales	(94,787)	(33,121)	(108,252)	(43,162)
Gross profit	$ 99,985	$ 17,779	$ 111,412	$ 32,610

(c) Guarantees of bank loans

Mr. Lin has provided personal guarantees for certain of the Company s loans as follows:

Borrower	Lender	June 30, 2010 (Unaudited)	December 31 2009
ISIID	Hang Seng Bank Limited	$ -	$ 5,160,000
IASPEC	Hang Seng Bank Limited	-	4,401,000
IASPEC	Industrial and Commercial Bank of China, Shenzhen	-	586,800
IASPEC	Industrial and Commercial Bank of China, Shenzhen	-	733,500
IASPEC	Industrial and Commercial Bank of China, Shenzhen	-	1,173,600
IASPEC	Industrial and Commercial Bank of China, Shenzhen	589,200	-
IASPEC	Industrial and Commercial Bank of China, Shenzhen	1,473,000	-
		$ 2,062,200	$ 12,054,900

7. INVENTORIES

As of June 30, 2010 and December 31, 2009, inventories consist of:

	June 30, 2010 (Unaudited)	December 31, 2009
Raw materials	$ 9,150,872	$ 3,385,758
Work in processes	129,755	344,875
Finished goods	3,355,419	2,034,345
Installations in process	8,349,510	5,171,026
Total	$ 20,985,556	$ 10,936,004

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8. LONG-TERM INVESTMENTS

As of June 30, 2010 and December 31, 2009, long-term investments consist of:

	June 30, 2010 (Unaudited)	December 31, 2009
Tianhe Navigation and Communication Technology Co., Ltd. ("Tianhe")	$ 2,800,072	$ 2,788,666
Xiamen Yili Geo Information Technology Co., Ltd. ("Yili")	73,650	73,350
	$ 2,873,722	$ 2,862,016

Geo holds a 20% ownership interest in Tianhe. Although Geo owns 20% of Tianhe, Geo s management does not have the ability to exercise significant influence over operating and financial policies of Tianhe due to the following factors:

a. The Company and Geo do not participate in the policy making, operations, or financial processes of Tianhe;

b. There are no intercompany transactions between the Company or Geo and Tianhe;

c. There is no interchange of managerial personnel;

d. The Company and Geo do not nominate or hold a board position at Tianhe; and

e. There is no technological or financial dependence between the Company or Geo and Tianhe.

Long-term investments also include Geo s investments in Yili. During the year ended December 31, 2009, the Company received dividends of RMB 750,000 (approximately $110,000), in connection with its investment in Yili. As at December 31, 2009, management determined that there was an other-than temporary impairment in the value of its investment in Tianhe and recorded an impairment loss of approximately $233,000. As at June 30, 2010, the management reassessed the possible impairment to the investment to Tianhe and determined that no more impairment loss should be made.

9. PROPERTY AND EQUIPMENT

As of June 30, 2010 and December 31, 2009, property and equipment consist of:

	June 30 2010 (Unaudited)	December 31 2009
Office building	$ 7,340,667	$ 6,536,605
Plant and machinery	23,838,343	17,844,918
Electronic equipment, furniture and fixtures	11,236,665	11,405,355
Motor vehicles	1,124,703	1,098,729
Purchased software	32,474,737	27,036,904
Total	76,015,115	63,922,511

Less: accumulated depreciation		(13,402,979)		(10,335,997)
	$	62,612,136	$	53,586,514

Depreciation expense for the three months ended June 30, 2010 and 2009 was approximately $1,917,000 and $937,000, respectively. Depreciation expense for the six months ended June 30, 2010 and 2009 was approximately $3,441,000 and $1,852,000, respectively.

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10. LAND USE RIGHTS AND INTANGIBLE ASSETS

(a) Land use rights

As of June 30, 2010 and December 31, 2009, land use rights consist of:

	June 30 2010 (Unaudited)	December 31 2009
Land use rights	$ 2,154,372	$ 1,914,611
Less: accumulated amortization	(30,670)	(7,000)
Land use rights, net	$ 2,123,702	$ 1,907,611

Amortization expense for the three months ended June 30, 2010 and 2009 was approximately $12,000 and $0, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was approximately $24,000 and $0, respectively.

Estimated amortization for the next five years and thereafter is as follows:

Remainder of 2010	$ 23,640
2011	47,281
2012	47,281
2013	47,281
2014	47,281
Thereafter	1,910,938
Total	$ 2,123,702

(b) Intangible assets

As of June 30, 2010 and December 31, 2009, intangible assets consist of:

	June 30 2010 (Unaudited)	December 31 2009
Software and software development costs	$ 6,095,144	$ 5,637,740
Technology	7,220,499	7,191,087
Trademarks	4,167,117	4,150,143
Customer base	296,073	294,867
Sub-Total	17,778,833	17,273,837
Less: accumulated amortization	(4,640,164)	(3,717,696)
Intangible assets, net	$ 13,138,669	$ 13,556,141

Amortization expense for the three months ended June 30, 2010 and 2009 was approximately $427,000 and $438,000, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was approximately $927,000 and $866,000, respectively.

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10. LAND USE RIGHTS AND INTANGIBLE ASSETS (CONTINUED)

(b) Intangible assets (continued)

Estimated amortization for the next five years and thereafter is as follows:

Remainder of 2010	$	810,781
2011		1,686,267
2012		1,599,467
2013		1,337,600
2014		1,330,165
Thereafter		6,374,389
Total	$	13,138,669

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11. BANK LOANS

(a) Short-term bank loans

At June 30, 2010 and December 31, 2009, the Company had the following bank borrowings:

Lender	Terms	Loan Period	Interest rate per annum	June 30, 2010 (Unaudited)	December 31, 2009
China Merchants Bank, Wuhan Donghu Branch	Principal amount of RMB5,000,000 ($733,500). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Geo's land and office buildings.	June 25, 2009 to June 24, 2010	5.58%	$ -	$ 733,500
China Merchants Bank, Wuhan Donghu Branch	Principal amount of RMB5,000,000 ($736,500). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Geo's land and office buildings	June 8, 2010 to December 6, 2010	5.10%	736,500	-
China Merchants Bank, Wuhan Donghu Branch	Principal amount of RMB3,000,000 ($441,900). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Geo's land and office buildings.	October 12, 2009 to October 12, 2010	5.58%	441,900	440,100
China Merchants Bank, Wuhan Donghu Branch	Principal amount of RMB4,000,000 ($589,200). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Geo's land and office buildings.	December 2, 2009 to December 2, 2010	5.58%	589,200	586,800
Hang Seng Bank Limited	Principal amount of HKD 40,000,000 ($5,160,000).Weighted average interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by Mr. Lin, iASPEC, Bocom, CPSH and the Company and through June 25, 2009 was collateralized by a three-month fixed deposit of RMB40,000,000 ($5,868,000) of IST.	June 18, 2009 to October 31, 2010	2.75% p/a over HIBOR	-	5,160,000
Industrial and Commercial Bank of China, Shenzhen Branch	Principal amount of RMB4,000,000 ($586,800). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by accounts receivable of RMB 4,880,000 ($715,900) and guaranteed by Mr. Lin.	November 5, 2009 to April 1, 2010	5.589%	-	586,800

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11. BANK LOANS (CONTINUED)

(a) Short-term bank loans (continued)

Industrial and Commercial Bank of China, Shenzhen Branch	Principal amount of RMB8,000,000 ($1,173,600). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by accounts receivable of RMB 9,166,603 ($1,344,700) and guaranteed by Mr. Lin.	December 29, 2009 to May 7, 2010	5.589%	-	1,173,600
Industrial and Commercial Bank of China, Shenzhen Branch	Principal amount of RMB5,000,000 ($733,500). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by accounts receivable of RMB 6,912,495 ($1,014,000) and guaranteed by Mr. Lin.	November 10, 2009 to April 29, 2010	5.589%	-	733,500
Ping An Bank	Principal amount of RMB 40,000,000 ($5,892,000). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Huipu s plants.	June 30, 2010 to June 30, 2011	5.31%	5,892,000	-
Hang Seng Bank Limited	Principal amount of RMB 30,000,000 ($4,401,000). The loan is guaranteed by Mr. Lin, iASPEC, IST, PST.	September 1, 2009 to October 30, 2010	120% of PBOC s interest rate for Renminbi loan during the period	-	4,401,000
Bank of China, Shenzhen Longgang Branch	Principal amount of RMB10,000,000 ($1,473,000). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by IST.	February 26, 2010 to August 26, 2010	4.86%	1,473,000	-
Bank of China, Shenzhen Longgang Branch	Principal amount of RMB4,000,000 ($589,200). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by IST.	March 17, 2010 to September 14, 2010	4.86%	589,200	-
Bank of China, Shenzhen Longgang Branch	Principal amount of RMB16,000,000 ($2,356,800). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by IST.	March 31, 2010 to September 28, 2010	4.86%	2,356,800	-

(CONTINUED)

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11. BANK LOANS (CONTINUED)

(a) Short-term bank loans (continued)

Shenzhen Commercial Bank	Principal amount of RMB 14,400,000 ($2,112,480). See Note 11(b)	December 31, 2009 to December 30, 2010	7.128%	-	2,112,480
China Merchants Bank, Wuhan Donghu Branch	Principal amount of RMB3,000,000 ($441,900). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Geo's land and office buildings	May 14, 2010 to November 11, 2010	5.10%	441,900	-
Ping An Bank	Principal amount of RMB 32,600,000 ($4,801,980). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by Huipu s plants.	March 31, 2010 to March 30, 2011	5.31%	4,801,980	-
Hang Seng Bank Limited	Principal amount of USD1,123,200. Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by the Company	May 31, 2010 to August 9, 2010	4.60%	1,123,200	-
Hang Seng Bank Limited	Principal amount of USD383,760. Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by the Company	June 17, 2010 to August 9, 2010	4.50%	383,760	-
Hang Seng Bank Limited	Principal amount of USD1,230,100. Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is guaranteed by the Company	May 21, 2010 to August 19, 2010	4.60%	1,230,100	-
Industrial and Commercial Bank of China, Shenzhen Branch	Principal amount of RMB4,000,000 ($589,200). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by accounts receivable of RMB 4,580,000 ($675,000) and guaranteed by Mr. Lin.	April 28, 2010 to October 26, 2010	5.59%	589,200	-
Industrial and Commercial Bank of China, Shenzhen Branch	Principal amount of RMB10,000,000 ($1,473,000). Fixed interest rate; interest is payable monthly and principal is due at maturity. The loan is collateralized by accounts receivable of RMB 12,321,000 ($1,815,000) and guaranteed by Mr. Lin.	June 30, 2010 to December 28, 2010	5.59%	1,473,000	-
				$ **22,121,740**	$ **15,927,780**

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11. BANK LOANS (CONTINUED)

(b) Long-term bank loans

On October 18, 2006, Huipu obtained a RMB 55,000,000 ($8,069,000) term loan from Shenzhen Commercial Bank to finance the construction of its plant and buildings. The loan has a fixed interest rate at 7.128% per annum and matures on October 17, 2011. Interest on the loan is payable monthly, and principal of RMB 1,200,000 ($176,000) is payable monthly through the maturity date, with any remaining principal also payable on the maturity date.

The total outstanding balance of this loan as of December 31, 2009 is RMB 27,400,000 ($4,020,000), of which RMB 14,400,000 ($2,112,000) is due in one year and classified as current liability

On January 1, 2010, Huipu repaid the outstanding balance and obtained a RMB 27,400,000 ($4,020,000) long term loan from Ping An Bank. The new loan has a fixed interest rate at 7.128% per annum and matures on October 17, 2011. Interest on the loan is payable monthly, and principal is due at maturity.

12. INCOME TAXES

Pre-tax income for the three and six months June 30, 2010 and 2009 was taxable in the following jurisdictions:

	Three months ended June 30		Six months ended June 30	
	2010	**2009**	**2010**	**2009**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC	$ 12,302,773	$ 9,342,249	$ 19,490,776	$ 14,242,894
Others	(484,984)	(379,224)	(109,977)	(714,657)
Total income before income taxes	$ 11,817,789	$ 8,963,025	$ 19,380,799	$ 13,528,237

United States

The Company was incorporated in Nevada and is subject to United States of America tax law. It is management's intention to reinvest all the income attributable to the Company earned by its operations outside the United States of America (the U.S.). Accordingly, no U.S. corporate income taxes are provided in these condensed consolidated financial statements.

BVI

Under the current laws of the BVI, dividends and capital gains arising from the Company's investments in the BVI are not subject to income taxes.

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12. INCOME TAXES (CONTINUED)

PRC

The income tax provision consists of the following:

	Three months ended June 30		Six months ended June 30	
	2010 (Unaudited)	**2009** (Unaudited)	**2010** (Unaudited)	**2009** (Unaudited)
Current taxes	$ 2,027,487	$ 1,102,720	$ 3,115,112	$ 1,709,713
Deferred taxes	136,122	(10,920)	219,580	(29,517)
Provision for income taxes	$ 2,163,609	$ 1,091,800	$ 3,334,692	$ 1,680,196

	Three months ended June 30		Six months ended June 30	
	2010 (Unaudited)	**2009** (Unaudited)	**2010** (Unaudited)	**2009** (Unaudited)
PRC federal statutory tax rate	$ 25%	$ 25%	$ 25%	$ 25%
Computed expected income tax expense	2,954,448	1,792,605	4,845,200	2,705,647
Tax concession	(1,219,294)	(872,532)	(1,935,319)	(1,341,162)
Change in valuation allowance	-	-	-	-
Permanent differences	103,243	111,288	203,336	182,423
Other differences	325,212	60,439	221,475	133,288
Income taxes	$ 2,163,609	$ 1,091,800	$ 3,334,692	$ 1,680,196

CHINA INFORMATION SECURITY TECHNOLOGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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12. INCOME TAXES (CONTINUED)

The significant components of deferred tax assets and deferred tax liabilities were as follows as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (Unaudited)		December 31, 2009	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Fixed assets	$ 274,572	$ (205,183)	$ 202,458	$ (212,101)
Intangible assets	89,433	(1,691,154)	91,865	(2,352,503)
Inventory valuation	886,865	-	953,754	-
Accounts receivable allowance	735,748	-	765,573	-
Equity investments	35,146	-	35,003	-
Loss carry-forwards	1,020,290	-	2,075,541	-
Gross deferred tax assets and liabilities	3,042,054	(1,896,337)	4,124,194	(2,564,604)
Valuation allowance	(991,105)	-	(1,736,137)	-
Total deferred tax assets and liabilities	$ 2,050,949	$ (1,896,337)	$ 2,388,057	$ (2,564,604)

The breakdown between current and long-term deferred tax assets and liabilities was as follows as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (Unaudited)	December 31, 2009
Current deferred tax assets	$ 1,622,613	$ 1,719,327
Current deferred tax liabilities	-	-
Long-term deferred tax assets	428,336	668,730
Long-term deferred tax liabilities	(1,896,337)	(2,564,604)
Total net deferred tax assets/(liabilities)	$ 154,612	$ (176,547)

As at June 30, 2010, Geo and Huipu had incurred tax losses of approximately $480,000 and $6,945,000, respectively. Approximately $190,000 of the accumulated losses of Geo can be carried forward through approximately 2010.

FASB ASC 740 requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In accordance with proactive communication with local tax bureau, the management determined that $2,997,000 of the accumulative losses of Huipu could not be utilized to deduct against future taxable profit as it had been denied by the local tax bureau. The management derecognized the corresponding deferred tax assets amounting to $745,000 and wrote off the corresponding valuation allowance therefore.

The management also expects the rest of $3,948,000 of the accumulated losses of Huipu may not be utilized to deduct against future taxable profit due to the fact that proper approval from the local tax bureau has not been obtained, the valuation allowance amounting to approximately $991,000 existed as at June 30, 2010.

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13. EQUITY

(a)
Issuance
of new
shares
On January 12, 2010, the Company issued 1,652,033 shares of common stock to certain purchasers at $6.15 per share, for the purpose of funding the Company with working capital. The purchasers also received from the Company additional warrants to purchase an aggregate of 813,008 shares of common stock at an exercise price of $6.15. The warrants expired 45 days after the initial issuance date.

On January 21, 2010, the Purchasers exercised the warrants and purchased 41,250 shares of common stock at an exercise price of $6.15.

(b)
Stock-based
compensation
Effective June 13, 2007, the Board of Directors of the Company adopted the China Information Security Technology, Inc. 2007 Equity Incentive Plan (The Plan). The Plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of 8,000,000 shares of the Company s common stock may be issued pursuant to Awards granted under the Plan.

On November 30, 2007, subject to ratification of the Plan by the stockholders, the Company issued options to certain employees to purchase 490,000 shares of the Company s common stock, par value $0.01, with an exercise price of $9.48 per share. The options were to vest on December 5, 2008 and expire on December 5, 2011.

On March 3, 2008, the Company's Board of Directors voided and canceled the grant of the stock options, and on March 20, 2008 approved the grant of 400,000 shares of common stock to the employees. The fair value of the Company s common stock based on quoted market prices on March 20, 2008 was $4.30 per share. Since the cancellation and grant of the replacement award occurred concurrently, they were treated as a modification of the terms of the cancelled award. 100,000 shares of common stock became vested on June 20, 2008 and September 20, 2008, respectively, and the remaining 200,000 shares of common stock were vested on December 20, 2008.

On February 2, 2009, the Company granted eligible employees a total of 60,000 shares of the Company s common stock as compensation under the Plan.

On January 12, 2010, the Company granted eligible employees a total of 213,363 shares of the Company's common stock as compensation under the Plan. The fair value of these shares of approximately $1.3 million, based on the quoted market price, was accrued as of December 31, 2009 as the compensation was for services provided in 2009.

As of June 30, 2010, there was no unrecognized compensation expenses related to the non-vested options.

14. CONSOLIDATED SEGMENT DATA
Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. Transfers and sales between reportable segments, if any, are

recorded at cost.

In connection with the changes in the Company's business portfolio and realignment of management, management conducted a review of its operating business segments during the first quarter of 2009. The review resulted in adding the Digital Hospital Information System Segment and merging the Product Sales Segment into Digital Information Security Technology Segment.

The Company's new segment reporting, which has been used for all periods presented, follows the organizational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

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14. CONSOLIDATED SEGMENT DATA (CONTINUED)

The Company reports financial and operating information in the following three segments:

(a) Geographic Information Systems Segment ("GIS"): includes the Police-Use Geographic Information Systems ("PGIS") and Civil-Use GIS sale; (b) Digital Information Security Technology Segment ("DIST"): includes revenues from information security related projects;

(c) Digital Hospital Information System Segment ("DHIS"): includes revenues from digital information system provided to hospitals or medical institutes.

The Company also provides general corporate services to its segments and these costs are reported as "Corporate and others."

Selected information by segment is presented in the following tables for the three and six months ended June 30, 2010 and 2009.

	Three months ended June 30		Six months ended June 30	
	2010	**2009**	**2010**	**2009**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenues(1)				
GIS Segment	$ 15,677,977	$ 7,974,312	$ 26,315,057	$ 13,833,978
DIST Segment	13,957,662	15,221,482	26,055,086	22,741,939
DHIS Segment	3,881,249	2,592,125	6,451,852	4,192,186
	$ **33,516,888**	$ **25,787,919**	$ **58,821,995**	$ **40,768,103**

(1)Revenues by operating segments exclude intercompany transactions.

Income from operations:				
GIS Segment	$ 6,217,144	$ 4,356,698	$ 10,472,996	$ 5,727,286
DIST Segment	4,621,172	3,373,025	6,288,481	5,988,166
DHIS Segment	1,746,608	1,235,740	2,716,947	1,780,456
Corporate and others(2)	(457,980)	(367,848)	(788,051)	(728,943)
Income from operations	**12,126,944**	**8,597,615**	**18,690,373**	**12,766,965**
Corporate other income (expenses), net	(55,802)	301,226	1,073,779	680,381
Corporate interest income	10,403	120,627	29,294	197,544
Corporate interest expense	(263,756)	(56,443)	(412,647)	(116,653)
Income before income tax	**11,817,789**	**8,963,025**	**19,380,799**	**13,528,237**
Income tax expense	(2,163,609)	(1,091,800)	(3,334,692)	(1,680,196)
Net income	**9,654,180**	**7,871,225**	**16,046,107**	**11,848,041**
Net income attributable to the non-controlling interest	(302,111)	(73,395)	(412,930)	(293,218)
Net income attributable to the Company	$ **9,352,069**	$ **7,797,830**	$ **15,633,177**	$ **11,554,823**

(2) Includes non-cash compensation, professional fees and consultancy fees for the Company.

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14. CONSOLIDATED SEGMENT DATA (CONTINUED)

Total assets by segment as at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009
Total assets:		
GIS Segment	$ 113,883,809	$ 98,140,496
DIST Segment	138,059,958	115,003,084
DHIS Segment	32,480,073	30,886,236
Corporate and others	170,559	6,799,122
	$ 284,594,399	$ 250,828,938

15. COMMITMENTS AND CONTINGENCIES

iASPEC, Bocom, Zhongtian, and Huipu lease offices, employee dormitories and factory space in Shenzhen, Guangzhou, Beijing and Dongguan in the PRC, under lease agreements that will expire on various dates through August 2012. Rent expense for the three months ended June 30, 2010 and 2009 was approximately $84,700 and $81,100, respectively. Rent expense for the six months ended June 30, 2010 and 2009 was approximately $168,500 and $262,100, respectively.

Future minimum lease payments under these lease agreements are as follows:

Six months ended June 30, 2010	
Remainder of 2010	$ 201,760
2011	242,017
2012	21,042
Total	$ 464,819

The Company entered into several purchase commitments during the period to purchase operating software and a database. The total contracted price is approximately $5.38 million (RMB 36.5 million). As of June 30, 2010, the Company paid deposits of approximately $4.80 million (RMB 32.5 million). The Company will pay the remaining contracted amount 90 days subsequent to final testing of the software.

16. CONCENTRATIONS

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company extends credit to its customers in the normal course of business and generally does not require collateral. As a result, management performs ongoing credit evaluations, and the Company maintains an allowance for potential credit losses based upon its loss history and its aging analysis. The allowance for doubtful accounts ($2,944,000 at June 30, 2010 and $3,123,000 at December 31, 2009) is the Company's best estimate of the amount of probable credit losses in existing accounts receivable.

Management reviews the allowance for doubtful accounts each reporting period based on a detailed analysis of accounts receivable. In the analysis, management primarily considers the age of the customer's receivable and also considers the creditworthiness of the customer, the economic conditions of the customer's industry, and general economic conditions and trends, among other factors. If any of these factors change, the Company may also change its original estimates, which could impact the level of the Company's future allowance for doubtful accounts. If judgments regarding the collectability of accounts receivables were incorrect, adjustments to the allowance may be required, which would reduce profitability. Since the Company's accounts receivables are often concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse effect on the Company's financial statements.

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16. CONCENTRATIONS (CONTINUED)

For the three months ended June 30, 2010, the Company had no customer accounted for over 10% of the third party revenue. For the three months ended June 30, 2009, the Company had three customers that represented approximately 19.56%, 14.57%, 13.45% of the Company's third party revenue.

As of June 30, 2010, accounts receivables were due from 230 customers. Of these, no customers accounted for over 10% of the total accounts receivable. As of June 30, 2009, accounts receivable were due from 136 customers. Of these, two customers accounted for 22.10% and 10.58% of total accounts receivable, respectively.

17. SUBSEQUENT EVENT

On July 9, 2010, the Company entered into an agreement with the municipal government of Dongguan City, to purchase a land-use-right for 101,764 square meters of land for a consideration of approximately $22 million (RMB 150 million) to be paid in cash in installments. We plan to use the land for future construction of facilities to consolidate all of our subsidiaries in Guangdong province on the same premises. We paid an initial deposit of $737,000 (RMB 5 million) on July 16, 2010. We are obligated to pay 30% of the consideration on or before August 31, 2010, another 30% of the consideration by September 30, 2010 and the remaining portion of the purchase price by November 30, 2010.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

This quarterly report contains forward-looking statements relating to us that are based on the beliefs of our management as well as assumptions made by, and information currently available to, our management. When used in this Report, the words anticipate, believe, estimate, expect, intend, plan and similar expressions, as they rela our management, are intended to identify forward-looking statements. These statements reflect management's current view of us concerning future events and are subject to certain risks, uncertainties and assumptions, including among many others: the possibility that third parties hold proprietary rights that preclude us from marketing our products, the emergence of additional competing technologies, changes in domestic and foreign laws, regulations and taxes, changes in economic conditions, uncertainties related to China's legal system and economic, political and social events in China, a general economic downturn, a downturn in the securities markets, and other risks and uncertainties. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, estimated or expected. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should consider the factors and risks discussed in this report and carefully review the risk factors described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2009 and other documents we file from time to time with the U.S. Securities and Exchange Commission.

Use of Certain Defined Terms

Except as otherwise indicated by the context, references in this report to:

- Bocom are to Shenzhen Bocom Multimedia Display Technology Co., Ltd, a PRC company,
- China and PRC, are to the People's Republic of China,
- CIST, we, us, or our and the Company are to the combined business of China Information Security Technology, Inc. and its wholly-owned subsidiary, CPSH; along with CPSH's wholly-owned subsidiaries, IST and ISSI, and ISSI's wholly-owned subsidiary, ISS; and ISIID, and its operating PRC subsidiary, Bocom; iASPEC, to whose operations we succeeded on October 9, 2006 and who became our variable interest entity effective July 1, 2007, and its 57% majority owned subsidiary, Geo; and Kwong Tai, and its wholly-owned PRC subsidiary, Zhongtian; and HPC, and its wholly-owned PRC subsidiary, Huipu,
- CPSH are to China Public Security Holdings Limited, a British Virgin Islands company,
- Geo, are to Wuda Geoinformatics Co., Ltd., a PRC company,
- Hong Kong, are to the Hong Kong Special Administrative Region of China,
- HPC are to HPC Electronics (China) Company Limited (formerly, Topwell Treasure Ltd. ("Topwell")), a Hong Kong company,
- Huipu are to Huipu Electronics (Shenzhen) Co., Ltd. a PRC company.
- iASPEC are to iASPEC Software Co., Ltd., a PRC company,
- ISIID, are to Information Security International Investment and Development Limited, a Hong Kong company,
- ISS, are to Information Security Software (China) Co., Ltd., a PRC company,
- ISSI are to Information Security Software Investment Limited, a Hong Kong company,
- IST are to Information Security Technology (China) Co., Ltd., a PRC company,
- Kwong Tai, are to Kwong Tai International Technology Limited, a Hong Kong company,
- RMB or Renminbi, are to the Renminbi Yuan, China s national currency;
- U.S. dollars, dollars and $ refer to the legal currency of the United States. Throughout this report, we have converted RMB to USD as follows:

June 30, 2010

Balance sheet	RMB 6.81 to US$1.00
Statement of income and comprehensive income	RMB 6.83 to US$1.00

June 30, 2009	
Balance sheet	RMB 6.84 to US$1.00
Statement of income and comprehensive income	RMB 6.84 to US$1.00

- Zhongtian, are to Shenzhen Zhongtian Technology Development Company Ltd. a PRC company.

Overview of Our Business

We are a leading provider of integrated solutions for the digital security sector, the Geographic Information Systems, or GIS, and the digital hospital information sector. We provide a broad portfolio of fully integrated solutions and services, including a First Responder Coordination Platform, Intelligent Recognition System, Residence Card Information Management System, Police-use and Civil-use GIS products, and Digital Hospital Information System, as well as high-end multimedia display systems and technology.

We are headquartered in Shenzhen, China and our common stock is listed on the Nasdaq Global Select Market. As of June 30, 2010, we had more than 1,490 employees and 11 sales offices nationwide. We were founded in 1993.

Our customers are mostly public sector entities that use our products and services to improve the service quality and management level and efficiency of public security, traffic control, fire control, medical rescue, border control, and surveying and mapping. Our typical customers include some of the most important governmental departments in China, including the Ministry of Public Security, the public security, fire fighting, traffic and police departments of several provinces, the Shenzhen General Station of Exit and Entry Frontier Inspection, and several provincial personnel, urban planning, civil administration, land resource, and mapping and surveying bureaus. Over the past several years, we have diversified our customer base beyond our local reach. In the future, we expect to continually expand our market and product offerings in the public and other sectors, through active industry consolidation and enhancement of our technical capabilities.

We generate revenues through the sale of our integrated hardware and software products and through the provision of related support services. A significant portion of our operations are conducted through iASPEC, our variable interest entity. iASPEC is a PRC domestic company owned by Jiang Huai Lin, our Chairman and Chief Executive Officer, who is a PRC citizen and resident. iASPEC is able to obtain governmental licenses that are restricted to PRC entities that have no foreign ownership. These licenses allow iASPEC to perform Police-use Geographic Information Systems, or PGIS, services for PRC governmental customers. Under our Amended and Restated Management Services Agreement, or MSA, among our subsidiary, IST, iASPEC and Mr. Lin, IST is entitled to receive 95% of the net received profit of iASPEC during the term of the Agreement, less costs and expenses related to sales and operations, and accrued but uncollected accounts receivable. In fiscal years 2009, 2008 and 2007, 48.6%, 48% and 68% of our revenues, respectively, were generated under this exclusive commercial arrangement with iASPEC. During the six months ended June 30, 2010, $28.95 million, or 49.2% of our revenue was derived in connection with the MSA.

Where You Can Find Additional Information

We file annual, quarterly and other reports, proxy statements and other information with the SEC. You may obtain and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC s public reference facilities by calling the SEC at 1-800-SEC-0330. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549-1004. The SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings, including exhibits filed therewith, are accessible through the Internet at that website.

You may also request a copy of our SEC filings, at no cost to you, by writing or telephoning us at: China Information Security Technology, Inc., 21st Floor, Everbright Bank Building, Zhuzilin, Futian District, Shenzhen, Guangdong, 518040 People s Republic of China, attention Corporate Secretary, telephone (+86) 755-8370-8333. We will not send exhibits to the documents, unless the exhibits are specifically requested and you pay our fee for duplication and delivery.

The following chart reflects our corporate organizational structure:

Our corporate headquarters are located at 21st Floor, Everbright Bank Building, Zhuzilin, Futian District, Shenzhen, Guangdong, 518040, People s Republic of China. Our telephone number is (+86) 755 -8370-8333. We maintain a website at www.chinacpby.com that contains information about our subsidiary CPSH, but that information is not a part of this report.

First Half of 2010 Financial Performance Highlights

We continued to experience strong demand for our products and services during the six months ended June 30, 2010, which resulted in growth in our revenue and net income. The following are some financial highlights for the six months ended June 30, 2010:

- *Revenue*: Revenue increased $18.05 million, or 44.3%, to $58.82 million for the six months ended June 30, 2010, from $40.77 million for the six months ended June 30, 2009.
- *Gross Profit*: Gross profit increased $8.17 million, or 41.4%, to $27.92 million for the six months ended June 30, 2010, from $19.75 million for the six months ended June 30, 2009.
- *Income from operations*: Income from operations increased $5.92 million, or 46.4%, to $18.69 million for the six months ended June 30, 2010, from $12.77 million for the six months ended June 30, 2009.
- *Net income attributable to the Company*: Net income attributable to the Company was $15.63 million for the six months ended June 30, 2010, increased $4.08 million, or 35.3%, from $11.55 million for the six months ended June 30, 2009.
- *Fully diluted net income per share*: Fully diluted net income per share was $0.30 for the six months ended June 30, 2010, as compared to $0.24 for the six months ended June 30, 2009.

As at June 30, 2010, the total of our contract backlog was approximately $52.27 million, which was another new record for our Company.

Results of Operations

The following tables set forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales revenue and key components of our revenue for the periods indicated in dollars. The financial data for the three and six months ended June 30, 2010 reflects the operating results of the Company and its subsidiaries and our VIE, iASPEC and its subsidiary Geo, while the financial data for the same period in 2009 reflects the operating results of the Company and its subsidiaries and VIE, excluding Huipu, which was not acquired until October 2009.

For the Three-Month Periods Ended June 30, 2010 and 2009 (Unaudited)

(All amounts, other than percentages of revenue and numbers of shares, in U.S. dollars)

	2010		**2009**			
	As reported	Percentage of Revenue	As reported	Percentage of Revenue	Period-over-period Increase (Decrease)	
Revenue	33,516,888	100.00%	25,787,919	100.00%	7,728,969	29.97%
Costs of revenue	16,718,582	49.88%	13,521,168	52.43%	3,197,414	23.65%
Gross Profit	**16,798,306**	**50.12%**	**12,266,751**	**47.57%**	**4,531,555**	**36.94%**
Administrative expenses	(2,621,501)	7.82%	(2,304,376)	8.94%	(317,125)	13.76%
Research and development expenses	(560,649)	1.67%	(720,411)	2.79%	159,762	-22.18%
Selling expenses	(1,489,212)	4.44%	(644,349)	2.50%	(844,863)	131.12%
Income from operations	**12,126,944**	**36.18%**	**8,597,615**	**33.34%**	**3,529,329**	**41.05%**
Subsidy income	268,898	0.80%	318,071	1.23%	(49,173)	-15.46%
Other losses, net	(324,700)	0.97%	(16,845)	0.07%	(307,855)	1827.57%
Interest income	10,403	0.03%	120,627	0.47%	(110,224)	-91.38%
Interest expense	(263,756)	0.79%	(56,443)	0.22%	(207,313)	367.30%
Income from continuing operations before Income Taxes	**11,817,789**	**35.26%**	**8,963,025**	**34.76%**	**2,854,764**	**31.85%**

Income Tax Expense	(2,163,609)	6.46%	(1,091,800)	4.23%	(1,071,809)	98.17%
Net Income	9,654,180	28.80%	7,871,225	30.52%	1,782,955	22.65%
Less: Net Income Attributable to the NCI	(302,111)	0.90%	(73,395)	0.28%	(228,716)	311.62%
Net Income Attributable to the Company	9,352,069	27.90%	**7,797,830**	**30.24%**	1,554,239	19.93%

Revenue

Our revenue is generated from our integrated software and hardware products and through the related after-sales services. For the three months ended June 30, 2010, our revenue was $33.52 million, compared to $25.79 million for the three months ended June 30, 2009, an increase of $7.73 million, or 30%. During the current quarter, Huipu, which was acquired in October 2009, contributed $4.26 million to total revenues. Excluding the impact from Huipu, organic revenue growth was 13.5% as we continued to focus on profitability and hence reducing lower-margin businesses primarily in product and system integration categories.

Software sales increased by 40.7% to $22.41 million for the three months ended June 30, 2010, from $15.92 million for the three months ended June 30, 2009. Software sales constituted 66.9% of our total revenue, which increased from 61.7% during the same period in the prior year, reflecting our continued commitment to our core competency in software. Excluding the impact of Huipu, software sales were 76.6% of organic revenues.

Product sales increased by $3.68 million, or 97.2% for the three months ended June 30, 2010, as compared to $3.79 million in the same period of 2009. Product sales constituted 22.3% of total revenue during the current period as compared with 14.7% during the same period in the prior year. Product sales excluding Huipu declined by 22.01% from the same period in the prior year to 10.1% of organic revenues. This reflects our focus on higher value-added product sales with the Huipu acquisition.

Sales of system integration services decreased by 37.4% for the three-month ended June 30, 2010, as compared to the same period of 2009. As a percentage of revenue, it declined from 21.6% during the three months ended June 30, 2009 to 10.4% during the current quarter. Excluding the impact of Huipu, system integration was 11.9% of organic revenues. The steady decline in weight of system integration business, which carries lower margin, reflects our strategy of growing businesses with higher profitability.

Other revenue decreased by 69.6%, from $0.51 million in the three months ended June 30, 2009 to $0.15 million in the same period of 2010. Other revenue mainly derived from maintenance services in the three months ended June 30, 2009, while in the same period of 2010, in addition to maintenance services, we also generated $0.11 million royalty income from Huipu by licensing other manufacturers to use the HPC trademark. We believe this is an effective way to harvest HPC s value and monetize its intellectual property.

Regarding segment breakdown, for the three months ended June 30, 2010, approximately $15.68 million of our revenues were generated by our GIS segment, $13.96 million of our revenues were generated by our DIST segment and $3.88 million was generated by the DHIS segment. This compared with $7.97 million by our GIS segment, $15.22 million by our DIST segment and $2.59 million by our DHIS segment for the three months ended June 30, 2009. The DIST segment decreased by 8.3% compared with the same period of 2009, while the year-over-year growth ratios for GIS and DHIS segments were 96.6% and 49.7% respectively.

GIS accounted for 46.8% of the total revenue while DIST and DHIS represented 41.6% and 11.6% respectively. Excluding the impact of Huipu, the segment weights were 46.3%, 40.4% and 13.3% respectively. These compared to 30.9%, 59.0% and 10.1% of the total revenue for the three months ended June 30, 2009. For the first time, GIS segment weight exceeded that of DIST and became the largest business segment for us in the second quarter of 2010. As our technologies continue to evolve, we are able to integrate more and more DIST functions with those of GIS to create brand new capabilities for our customers. Such new offerings contributed to the GIS segment, instead of DIST, which explains the negative growth rate in DIST segment. The shifts in segment weights ultimately reflect the growth momentum in GIS and DHIS segments outpacing that of DIST. This is the direct result of our focus in the last few years on targeting areas with the highest barriers-to-entry and developing sustainable competitive advantages in the GIS and DHIS segments, in anticipation of accelerating market growth in the coming years. As such expectation starts to materialize, we believe we have been well positioned to capture the growth opportunities.

Cost of Revenue and Gross Profit

	2010					2009				
	Revenue	%	Cost	GP	GP%	Revenue	%	Cost	GP	GP%
Products	$ 7,471,511	22.29%	5,813,701	1,657,810	22.19%	3,789,288	14.69%	3,007,849	781,439	20.62%
Software	22,406,236	66.85%	10,257,690	12,148,546	54.22%	15,921,487	61.74%	5,993,637	9,927,850	62.36%
System integration	3,485,523	10.40%	570,721	2,914,802	83.63%	5,571,619	21.61%	4,395,011	1,176,608	21.12%
Others	153,618	0.46%	76,470	77,148	50.22%	505,525	1.96%	124,671	380,854	75.34%
Subtotal	$ 33,516,888	100.00%	16,718,582	16,798,306	50.12%	25,787,919	100.00%	13,521,168	12,266,751	47.57%

As indicated in the table above, our cost of revenues increased $3.2 million, or 23.7%, to $16.72 million, for the three months ended June 30, 2010, from $13.52 million for the three months ended June 30, 2009. As a percentage of revenues, our cost of revenue decreased to 49.9% during the three months ended June 30, 2010, from 52.4% in the same period of 2009. As a result, gross margin was 50.1% for the three months ended June 30, 2010, an increase of 2.5%, from 47.6% in the same period of 2009. Huipu yielded a gross margin of 18.5% . Excluding the impact of Huipu, gross margin of organic business was 54.7% .

The improvement in gross margin resulted from several factors. During the quarter, we cut down on the lower-margin product sales while benefiting from Huipu s higher-margin product contribution. As a result, the gross margin of products improved by 157 basis points. During the quarter, we continued to reduce the weight of system integration business which typically carries lower margin. The gross margin for this segment during the quarter was as high as 83.63% primarily due to the progress of certain projects. Meanwhile, we continued to increase the weight of software business, which carries higher gross margin. However, the gross margin of software business declined to 54.22% from 62.36% a year ago primarily due to the outsourcing practice which we started in the first quarter of 2010. We believe that by outsourcing some of the non-essential and labor-intensive portions of our software projects, we will be able to focus our resources on the higher value-added components of the software business. This practice should enable us to grow revenues more effectively and save operating expenses, which, overtime, will be accretive to our long-term shareholder value.

For the three months ended June 30, 2010, approximately $7.91 million of our cost of revenues was attributable to our GIS segment, $7.04 million was attributable to our DIST segment and $1.77 million was attributable to our DHIS segment, compared to $2.44 million to GIS segment, $10.17 million to DIST segment and $0.91 million by DHIS segment, respectively, during the same period of 2009.

Administrative Expenses

Administrative expenses consist primarily of compensation and benefits to our general management, finance and administrative staff, professional advisor fees, audit fees and other expenses incurred in connection with general operations. Our administrative expenses increased by about $0.32 million, or 13.8%, to $2.62 million for the three months ended June 30, 2010, from $2.30 million in the same period of 2009. Some notable changes that resulted in the increase of administrative expenses are: 1) the addition of administrative expenses of Huipu of about $0.38 million; and 2) the reversal of bad debt provision expenses of $0.17 million as we collected several accounts receivable balances provided for in the prior year.

Research and Development Expenses

Research and development expenses consist primarily of personnel-related expenses, as well as costs associated with new software and hardware development and enhancement. Research and development expenses decreased by $0.16 million or 22.2% to $0.56 million for the three months ended June 30, 2010, from $0.72 million in the same period of 2009. As a percentage of sales, research and development expenses accounts for approximately 1.7% of the total revenue for the three months ended June 30, 2010, compared with 2.8% of total revenue for the same period in 2009. The research and development expenses came down in percentage of revenues because the research and development investments made from prior years are yielding scalable effects in revenue growth.

Selling Expenses

Selling expenses consist primarily of compensation and benefits to our sales and marketing staff, sales and after-sales traveling cost, and other sales related costs. Our selling expenses increased $0.84 million, or 131.1%, to $1.49 million for the three months ended June 30, 2010, from $0.64 million in the corresponding period of 2009. The selling expenses outpacing revenue growth reflects our heightened efforts in national market expansion.

Income from Operations

Income from operations increased $3.53 million, or 41.1%, to $12.13 million for the three months ended June 30, 2010, from $8.60 million in the corresponding period in 2009. Income from operations as a percentage of revenue increased to 36.2% during the three months ended June 30, 2010, from 33.3% in 2009.

Other Losses, net

Key components of Other Losses, net of $0.32 million for the three months ended June 30, 2010 were (1) donations of approximately $0.18 million to the Education Committee of Jinjiang City, Fujian Province, for building schools and (2) loss of $0.09 million, which resulted from the increase of fair value of the liability associated with the contingent consideration for HPC acquisition during the period. As our stock price appreciated during the period, the contingent liability, which is based on our stock price, increased in fair value. Such an increase in contingent liability served to reduce our profit.

Non-controlling interest

Non-controlling interest of $302,000 for the three months ended June 30, 2010 represents the $284,000 fee retained by iASPEC under the revised MSA, which represents 5.0% of the net income for the three months ended June 30, 2010, and $18,000 of Geo s profit retained by the 43% non-controlling interest in Geo. The retained profits by iASPEC during the three months ended June 30, 2009 was $45,000, which was a fixed amount according to the original MSA, and the retained profits by Geo s 43% shareholders was approximately $28,395.

Income Tax Expense

Income tax expense for the three months ended June 30, 2010 was $2.16 million, up from $1.09 million for the same period in 2009.

Our subsidiaries, ISS, Zhongtian and Huipu are all governed by the Income Tax Laws of the PRC and are subject to the PRC s enterprises income tax, or EIT, at a rate of 22% of assessable profits in 2010, compared to 20% for the same period in 2009, an increase of 2%.

Bocom, and our VIE, iASPEC (inclusive of Geo), as High-Tech Enterprises, are subject to EIT at a rate of 15% of assessable profits. After offsetting accumulated losses from prior years, Geo had no assessable profit subject to EIT for the three months ended June 30, 2010. In addition, as a software company, IST was entitled to a two-year exemption from EIT followed by a 50% tax exemption for the next 3 years. Year 2010 is the fourth year that IST is entitled to the tax holiday and will be subject to a favorable tax rate of 11%.

Net income attributable to the Company

As a result of the factors described above, net income increased $1.55 million, or 19.9%, to $9.35 million during the three months ended June 30, 2010, from $7.79 million for the same period in 2009.

For the Six-Month Periods Ended June 30, 2010 and 2009 (Unaudited)

(All amounts, other than percentages of revenue and numbers of shares, in U.S. Dollars)

	2010		2009			
	As reported	Percentage of Revenue	As reported	Percentage of Revenue	Period-over-period Increase (Decrease)	
Revenue	58,821,995	100.00%	40,768,103	100.00%	18,053,892	44.28%
Costs of revenue	30,906,236	52.54%	21,018,088	51.56%	9,888,148	47.05%
Gross Profit	**27,915,759**	**47.46%**	**19,750,015**	**48.44%**	**8,165,744**	**41.35%**
Administrative expenses	(5,391,532)	9.17%	(4,520,723)	11.09%	(870,809)	19.26%
Research and development expenses	(1,130,080)	1.92%	(1,224,263)	3.00%	94,183	-7.69%
Selling expenses	(2,703,774)	4.60%	(1,238,064)	3.04%	(1,465,710)	118.39%
Income from operations	**18,690,373**	**31.77%**	**12,766,965**	**31.32%**	**5,923,408**	**46.40%**
Subsidy income	431,680	0.73%	515,860	1.27%	(84,180)	-16.32%
Other income, net	642,099	1.09%	164,521	0.40%	477,578	290.28%
Interest income	29,294	0.05%	197,544	0.48%	(168,250)	-85.17%
Interest expense	(412,647)	0.70%	(116,653)	0.29%	(295,994)	253.74%
Income from continuing operations before Income Taxes	**19,380,799**	**32.95%**	**13,528,237**	**33.18%**	**5,852,562**	**43.26%**
Income Tax Expense	(3,334,692)	5.67%	(1,680,196)	4.12%	(1,654,496)	98.47%
Net Income	16,046,107	27.28%	11,848,041	29.06%	4,198,066	35.43%

Less: Net Income Attributable to the NCI	(412,930)	0.70%	(293,218)	0.72%	(119,712)	40.83%
Net Income Attributable to the Company	**15,633,177**	**26.58%**	**11,554,823**	**28.34%**	**4,078,354**	**35.30%**

Revenue

Our revenue is generated from our integrated hardware and software products and through the related after-sales services. For the six months ended June 30, 2010, our revenue was $58.82 million, compared to $40.77 million for the six months ended June 30, 2009, an increase of $18.05 million, or 44.3% . During the current quarter, Huipu, which was acquired in October 2009, contributed $9.13 million to revenues. Excluding the impact from Huipu, organic revenue growth was 21.9% .

Software sales increased by 50.7% to $37.58 million for the six months ended June 30, 2010, from $24.93 million for the six months ended June 30, 2009. Software sales constituted 63.9% of our total revenue, roughly in line with 61.2% during the same period in the prior year, reflecting our continued commitment to our core competency in software. Excluding the impact of Huipu, software sales were 75.6% of organic revenues.

Product sales increased by $7.21 million, or 109.1% for the six months ended June 30, 2010, as compared to $6.61 million in the same period of 2009. Product sales constituted 23.5% of total revenue during the current period as compared with 16.2% during the same period in the prior year. Product sales excluding Huipu declined by 7.1% from the same period in the prior year to 9.4% of organic revenues, as we focused on higher value-added product sales with Huipu.

Sales of system integration services decreased by 26.5% for the six months ended June 30, 2010, as compared to the same period of 2009. As a percentage of revenue, it declined from 20.9% during the six months ended June 30, 2009 to 10.7% during the current period. Excluding the impact of Huipu, system integration was 12.6% of organic revenues. The decline in weight of system integration business, which carries lower margin, reflects our strategy of growing businesses with higher profitability.

Other revenue increased by 64.6%, from $0.70 million in the six months ended June 30, 2009 to $1.15 million in the same period of 2010. Other revenue mainly derived from maintenance services in the six months ended June 30, 2009, while in the same period of 2010, in addition to maintenance services, we also generated $0.73 million royalty income from Huipu by licensing other manufacturers to use the HPC trademark. We believe this is an effective way to harvest HPC s value and monetize its intellectual property.

Regarding segment breakdown, for the six months ended June 30, 2010, approximately $26.32 million of our revenues were generated by our GIS segment, $26.06 million of our revenues were generated by our DIST segment and $6.45 million was generated by the DHIS segment. This compared with $13.83 million by our GIS segment, $22.74 million by our DIST segment and $4.19 million by our DHIS segment for the six months ended June 30, 2009. The year-over-year growth ratios for the three segments were 90.2%, 14.6% and 53.9% respectively. Excluding the impact of Huipu, the equivalent ratios were 57.2%, -5.5% and 53.9% respectively.

GIS accounted for 44.7% of the total revenue while DIST and DHIS represented 44.3% and 11.0% respectively. Excluding the impact of Huipu, the segment weights were 43.8%, 43.2% and 13.0% respectively. These compared to 33.9%, 55.8% and 10.3% of the total revenue for the six months ended June 30, 2009. For the first time, GIS segment weight exceeded that of DIST and became the largest business segment for us in the first six months of 2010. As our technologies continue to evolve, we are able to integrate more and more DIST functions with those of GIS to create brand new capabilities for our customers. Such new offerings contributed to the GIS segment, instead of DIST, which explains the negative growth rate in DIST segment. Overall, the shifts in segment weights reflected the GIS and DHIS segments outpacing DIST in their growth momentum. This is the direct result of our focus in the last few years on targeting at areas with the highest barriers-to-entry and developing sustainable competitive advantages in the GIS and DHIS segments, in anticipation of accelerating market growth in the coming years. As such anticipation starts to be realized, we believe we have been well positioned to capture the growth opportunities.

Cost of Revenue and Gross Profit

	2010					2009				
	Revenue	%	Cost	GP	GP%	Revenue	%	Cost	GP	GP%
Products	$ 13,819,481	23.49%	11,054,123	2,765,358	20.01%	6,610,416	16.21%	5,620,640	989,776	14.97%
Software	37,584,868	63.90%	16,659,101	20,925,767	55.68%	24,932,952	61.16%	8,694,577	16,238,375	65.13%
System integration	6,269,406	10.66%	3,046,531	3,222,875	51.41%	8,527,076	20.92%	6,540,763	1,986,313	23.29%
Others	1,148,240	1.95%	146,481	1,001,759	87.24%	697,659	1.71%	162,108	535,551	76.76%
Subtotal	$ 58,821,995	100.00%	30,906,236	27,915,759	47.46%	40,768,103	100.00%	21,018,088	19,750,015	48.44%

As indicated in the table above, our cost of revenues increased $9.89 million, or 47.0%, to $30.91 million, for the six months ended June 30, 2010, from $21.02 million for the six months ended June 30, 2009. As a percentage of revenues, our cost of revenue increased to 52.5% during the six months ended June 30, 2010, from 51.6% in the same period of 2009. As a result, gross margin was 47.5% for the six months ended June 30, 2010, a decrease of 0.9%, from 48.4% in the same period of 2009. Huipu yielded a gross margin of 23.7% . Excluding the impact of Huipu, gross margin of organic business was 51.8%, exceeding the gross margin a year ago.

For the six months ended June 30, 2010, approximately $13.06 million of our cost of revenues was attributable to our GIS segment, $14.9 million was attributable to our DIST segment and $2.95 million was attributable to our DHIS segment, compared to $5.69 million to GIS segment, $13.86 million to DIST segment and $1.46 million by DHIS segment, respectively, during the same period of 2009.

Administrative Expenses

Administrative expenses consist primarily of compensation and benefits to our general management, finance and administrative staff, professional advisor fees, audit fees and other expenses incurred in connection with general operations. Our administrative expenses increased by about $0.87 million, or 19.3%, to $5.39 million for the six months ended June 30, 2010, from $4.52 million in the same period of 2009. Some notable changes that resulted in the increase of administrative expenses are: 1) the addition of administrative expenses of Huipu of about $0.69 million; 2) the decrease of bad debt provision expenses of $0.31 million period-over-period; and 3) the decrease of stock based compensation expenses of $0.18 million.

Research and Development Expenses

Research and development expenses consist primarily of personnel-related expenses, as well as costs associated with new software product development and enhancement. Research and development expenses decreased by $94,000 or 7.7% to $1.13 million for the six months ended June 30, 2010, from $1.22 million in the same period of 2009. As a percentage of sales, research and development expenses accounts for approximately 1.9% of the total revenue for the six months ended June 30, 2010, compared with 3% of total revenue for the same period in 2009.The research and development expenses came down in percentage of revenues because the research and development investments made from prior years are yielding scalable effects in revenue growth.

Selling Expenses

Selling expenses consist primarily of compensation and benefits to our sales and marketing staff, sales and after-sales traveling cost, and other sales related costs. Our selling expenses increased $1.47 million, or 118.4%, to $2.70 million for the six months ended June 30, 2010, from $1.24 million in the corresponding period of 2009. The selling expenses outpacing revenue growth reflects our heightened efforts in national market expansion.

Income from Operations

Income from operations increased $5.92 million, or 46.4%, to $18.69 million for the six months ended June 30, 2010, from $12.77 million in the corresponding period in 2009. Income from operations as a percentage of revenue increased to 31.8% during the six months ended June 30, 2010, from 31.3% in 2009.

Other Income, net

Other income, net of $0.64 million for the six months ended June 30, 2010 primarily due to the fair value change for contingent shares paid for HPC acquisition. Approximately $0.7 million gain resulting from the decrease of fair value of the liability associated with issuing the contingent consideration was recorded during the period. As our stock price declined during the period, the contingent liability, which is based on our stock price, decreased in fair value. Such a decrease in contingent liability served to increase our profit.

Non-controlling interest

Non-controlling interest of $0.41 million for the six months ended June 30, 2010 represents the $0.42 million fee retained by iASPEC under the revised MSA, which represents 2.6% of the net income for the six months ended June 30, 2010, and $6,000 of Geo s losses retained by the 43% non-controlling interest in Geo. The retained profits by iASPEC during the six months ended June 30, 2009 was $90,000, which was a fixed amount according to the original MSA, and the retained profits by Geo s 43% shareholders was approximately $203,218.

Income Tax Expense

Income tax expense for the six months ended June 30, 2010 was $3.33 million, up from $1.68 million for the same period in 2009.

Our subsidiaries, ISS, Zhongtian and Huipu are all governed by the Income Tax Laws of the PRC and are subject to the PRC s enterprises income tax, or EIT, at a rate of 22% of assessable profits in 2010, compared to 20% for the same period in 2009, an increase of 2%.

Bocom, and our VIE, iASPEC (inclusive of Geo), as High-Tech Enterprises, are subject to EIT at a rate of 15% of assessable profits. After offsetting accumulated losses from prior years, Geo had no assessable profit subject to EIT for the six months ended June 30, 2010. In addition, as a software company, IST was entitled to a two-year exemption from EIT followed by a 50% tax exemption for the next 3 years. Year 2010 is the fourth year that IST is entitled to the tax holiday and will be subject to a favorable tax rate of 11%.

Net income attributable to the Company

As a result of the factors described above, net income increased $4.08 million, or 35.3%, to $15.63 million during the six months ended June 30, 2010, from $11.55 million for the same period in 2009.

Liquidity and Capital Resources

As of June 30, 2010, we had cash and cash equivalents of $17.75 million. The following table summarizes the key cash flow metrics from our condensed consolidated statements of cash flows for the six months ended June 30, 2010 and 2009.

	Six Months Ended June 30			
		2010		**2009**
Net Cash Provided by Operating Activities	$	3,454,340	$	3,987,953
Net Cash (Used in) / Provided by Investing Activities		(16,969,766)		4,639,317
Net Cash Provided by Financing Activities		17,611,259		1,153,764
Effect of Exchange Rate Changes on Cash and cash equivalents		170,806		30,757
Net increase in Cash and Cash Equivalents		4,266,639		9,811,791
Cash and Cash Equivalents, Beginning		13,478,633		9,565,252
Cash and Cash Equivalents, Ending	$	17,745,272	$	19,377,043

Operating Activities

Net cash provided by operating activities was $3.45 million for the six months ended June 30, 2010, a 13.4% decrease from $3.99 million for the same period of 2009.

The decrease in net cash provided by operating activities during the current period as compared with the same period in the prior year was mainly caused during the first quarter of the year, when the seasonally slow accounts receivable collection was coupled with strong sales revenue. (See discussion in the 10Q filing for the three months ended March 31, 2010 for details.)

During the three months ended June 30, 2010, our net cash provided by operating activities improved significantly to $14.80 million, as compared with $5.48 million in the same period a year ago. During the current quarter, our accounts receivable balance increased by $0.50 million, as compared with an increase of $11.39 million during the second quarter of 2009. Our Days Sales Outstanding (DSO) for the trailing 12 months, which eliminates seasonality factor, was 214 days. As of June 30, 2010, accounts receivables were due from 230 customers. Of these, no customers accounted for over 10% of the total accounts receivable. As of June 30, 2009, accounts receivable were due from 136 customers. Of these, two customers accounted for 22.10% and 10.58% of total accounts receivable, respectively. Our prudent provision practice continues to conclude a low level of credit risk, indicated by the 3.46% of provision relative to gross accounts receivable outstanding as of June 30, 2010. This compares with 4.17% a year ago. The credit risk is relatively low because most of the counterparties are government agencies.

Investing Activities

Net cash used in our investing activities was $16.97 million for the six months ended June 30, 2010, as compared to $4.64 million cash in-flow provided by investing activities for the same period of 2009. During the three months ended June 30, 2010, net cash used in our investing activities was $12.74 million, as compared to net cash provided in investing activities of $5.72 million in the same period in the prior year.

The net use of cash during the current quarter was primarily due to $5.00 million used to finish the construction of the plant acquired in the Huipu transaction and $5.43 million used to purchase software.

Financing Activities

Net cash provided by our financing activities increased to $17.61 million during the six months ended June 30, 2010, as compared to $1.15 million during the same period of 2009.

The increase was mainly attributable to the net proceeds of $9.38 million raised in issuing of common stock, and an increase in net bank borrowings of $8.23 million. During the three months ended June 30, 2010, net cash provided by financing activities amounted to $4.59 million, representing the net increase in borrowing. This compares with the $1.17 million net increase in borrowing during the same period of 2009.

Obligations under Material Contracts

The following table sets forth our material contractual obligations as of June 30, 2010:

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations	$ 464,819	$ 201,760	$ 263,059	$ -	$ -
Purchase Obligations	$ 581,835	$ 581,835	$ -	$ -	$ -
Total	$ 1,046,654	$ 783,595	$ 263,059	$ -	$ -

Recent Accounting Pronouncements

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, Revenue Recognition - Milestone Method (Topic 605) - Revenue Recognition (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for interim and annual periods beginning after June 15, 2010 and should be applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2010-17 on our consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, as an amendment to Accounting Standards Codification (ASC) Topic 855, Subsequent Events (ASC 855). As a result of ASU 2010-09, SEC registrants will not disclose the date through which management evaluated subsequent events in the financial statements. ASU 2010-09 is effective immediately for all financial statements that have not yet been issued or have not yet become available to be issued, or June 30, 2010 for the Company. The adoption of ASU 2010-09 is for disclosure purposes only and did not have any effect on the Company s financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820, Fair Value Measurement and Disclosure (ASC 820) to require a number of additional disclosures regarding fair value measurements. In addition to the new disclosure requirements, ASU 2010-06 also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010-06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities.

ASU 2010-06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuance and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all of the provisions of ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, or January 1, 2010 for the Company. The requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements does not become effective until fiscal years beginning after December 15, 2010, or January 1, 2011 for the Company. The adoption of ASU 2010-06 is for disclosure purposes only and did not have any effect on the Company s financial position or results of operations.

Critical Accounting Policies

There have been no changes in our critical accounting policies from those disclosed in under Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Seasonality of our Sales

The first quarter of the calendar year is typically the slowest season of the year due to the Chinese New Year holiday. During this period, accounts receivable collection is very slow and we also need to prepare for upcoming busier seasons by making payments for inventory.

Inflation

Inflation does not materially affect our business or the results of our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Although our reporting currency is the U.S. dollars, the financial records of our operating subsidiaries are maintained in their local currency, the RMB. Approximately 97.8% of our revenues and 100% of our consolidated costs and expenses, and consolidated assets for the six months ended June 30, 2010 are denominated in RMB, which is the functional currency of our operating subsidiaries. As a result, we are exposed to foreign exchange risk as our reported revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollars financial statements will decline. Assets and liabilities of our operating subsidiaries are translated into U.S. dollars at the exchange rate at the balance sheet date, their equity accounts are translated at historical exchange rates, and their income and expenses items are translated using the average rate for the period. Any resulting exchange differences are recorded in accumulated other comprehensive income or loss. An average appreciation (depreciation) of the RMB against the U.S. dollars of 5% would increase (decrease) our comprehensive income by $15.47 million based on our outstanding revenues, costs and expenses, assets, and liabilities denominated in RMB as of June 30, 2010. As of June 30, 2010, our accumulated other comprehensive income was $10.44 million. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Interest Rate Risk

The Company deposits surplus funds with Chinese banks earning daily interest. The Company does not invest in any instruments for trading purposes. Most of the Company s outstanding debt instruments carry fixed rates of interest. The Company s operations generally are not directly sensitive to fluctuations in interest rates. The amount of long-term debt outstanding as of June 30, 2010 and December 31, 2009 was $ 4 million and $2 million, respectively. A hypothetical 1.0% increase in the annual interest rates for all of our credit facilities under which we had outstanding borrowings at June 30, 2010, would decrease net income before provision for income taxes by approximately $54,000 or less than 1% for the period ended June 30, 2010. Management monitors the banks prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Inflation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). 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.

As required by Rule 13a-15(e), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer, Mr. Jiang Huai Lin and our Chief Financial Officer, Ms. Jackie You Kazmerzak, of the effectiveness of the design and operation of our disclosure controls and procedures, as of June 30, 2010. Based upon, and as of the date of this evaluation, Mr. Lin and Ms. Kazmerzak, determined that, as of June 30, 2010, and as of the date of this Report, our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal controls over financial reporting during the first quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS.

In addition to the risk factor below, please see the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2009.

We face uncertainty from China s Circular on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises' Share Transfer, or Circular 698, that was released in December 2009 with retroactive effect from January 1, 2008.

The Chinese State Administration of Taxation (SAT) released a circular (Guoshuihan No. 698 Circular 698) on December 15, 2009 that addresses the transfer of shares by nonresident companies. Circular 698, which is effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698, which provides parties with a short period of time to comply with its requirements, indirectly taxes foreign companies on gains derived from the indirect sale of a Chinese company. Where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction where the effective tax burden is less than 12.5% or where the offshore income of his, her, or its residents is not taxable, the foreign investor is required to provide the tax authority in charge of that Chinese resident enterprise with the relevant information within 30 days of the transfers. Moreover, where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise through an abuse of form of organization and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the PRC tax authority will have the power to re-assess the nature of the equity transfer in accordance with PRC s substance-over-form principle and deny the existence of the offshore holding company that is used for tax planning purposes. There is uncertainty as to the application of Circular 698. For example, while the term "indirectly transfer" is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax in the country or jurisdiction and to what extent and the process of the disclosure to the tax authority in charge of that Chinese resident enterprise. In addition, there are not any formal declarations with regard to how to decide abuse of form of organization and reasonable commercial purpose, which can be utilized by us to balance if our Company complies with the Circular 698. As a result, we may become at risk of being taxed under Circular 698 and we may be required to expend valuable resources to comply with Circular 698 or to establish that we should not be taxed under Circular 698, which could have a material adverse effect on our financial condition and results of operations.

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

We have not sold any equity securities during the quarter ended June 30, 2010 which sale was not previously disclosed in a current report on Form 8-K filed during that period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

On July 9, 2010, the Company entered into an agreement with the municipal government of Dongguan City, to purchase a land-use-right for 101,764 square meters of land for a consideration of approximately $22 million (RMB 150 million), to be paid in cash in installments. We plan to use the land for future construction of facilities to consolidate all of our subsidiaries in Guangdong province on the same premises. We paid an initial deposit of $737,000 (RMB 5 million) on July 16, 2010. We are obligated to pay 30% of the consideration on or before August 31, 2010, another 30% of the consideration by September 30, 2010 and the remaining portion of the purchase price by November 31, 2010.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit Number	**Description**
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CHINA INFORMATION SECURITY TECHNOLOGY, INC.

Dated: August 4, 2010

/s/ Jiang Huai Lin
Jiang Huai Lin
Chairman and Chief Executive Officer
(*Principal Executive Officer*)

Dated: August 4, 2010

/s/ Jackie You Kazmerzak
Jackie You Kazmerzak
Chief Financial Officer
(Principal Financial and Accounting Officer)

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