CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form S-1/A
November 07, 2006

As filed with the Securities and Exchange Commission on November 7, 2006

Registration No. 333-138166

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
(PRE-EFFECTIVE AMENDMENT NO. 1)
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	3699	98-0509431
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

4/F, East 3/B, Saige Science & Technology Park
Huaqiang, Shenzhen, China 518028
(86) 755-83765666
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement the same offering. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	*Amount to be registered(1)(3)*	*Proposed maximum offering price per share(2)*	*Proposed maximum aggregate offering price(2)*	*Amount of registration fee*
Common stock, $0.0001 par value	4,883,334	$7.19	$35,111,171	$3,757 (4)

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends or similar transactions.

(2) Estimated pursuant to Rule 457(c) of the Securities Act of 1933 solely for the purpose of computing the amount of the registration fee based on the average of the bid and asked prices for the Registrant’s common stock reported on the OTC Bulletin Board on October 20, 2006.

(3) Represents shares of the Registrant’s common stock being registered for resale that have been issued to the selling stockholders named in this registration statement.

(4) $3,757 registration fee was previously paid in connection with the filing of the original registration statement on October 23, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted

PROSPECTUS

Subject to completion, dated , 2006

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

4,883,334 Shares of Common Stock

This prospectus relates to 4,883,334 shares of common stock of China Security & Surveillance Technology, Inc. or CSST Delaware, a Delaware corporation, that may be sold from time to time by the selling stockholders named in this prospectus. We will not receive any proceeds from the sales by the selling stockholders.

Common stock of China Security and Surveillance Technology Inc., or CSST BVI, a British Virgin Islands corporation, is quoted on the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. under the symbol “CSSTF.OB”. The closing sales price for its common stock on November 3, 2006 was $8.24 per share, as reported on the OTC Bulletin Board. You are urged to obtain current market quotations of our common stock before purchasing any of the shares being offered for sale pursuant to this prospectus.

Any selling stockholders who are affiliates of broker-dealers and any participating broker-dealers are deemed to be “underwriters” within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such selling stockholders who are affiliates of broker-dealers and any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Investing in the shares being offered pursuant to this prospectus involves a high degree of risk. You should carefully read and consider the information set forth in the section of this prospectus titled “Risk Factors,” beginning on page 4, when determining whether to purchase any of these shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 2006.

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PROSPECTUS SUMMARY

This summary highlights some information from this prospectus, and it may not contain all of the information that is important to you. You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering, including "Risk Factors" and our financial statements and related notes, included elsewhere in, or incorporated by reference into, this prospectus.

In this prospectus, all references to "we," "us," "our," "our Company," "the Company" or "CSST" are to China Security & Surveillance Technology, Inc., a Delaware corporation, and China Security and Surveillance Technology Inc., a British Virgin Islands corporation, when the distinction between the two companies is not important to the discussion. When the distinction between the two companies is important to the discussion, we use the term "CSST Delaware" to refer to China Security & Surveillance Technology, Inc., a Delaware corporation, and the term "CSST BVI" to refer to China Security and Surveillance Technology Inc., a British Virgin Islands corporation. The terms "we," "us," "our," "our Company," "the Company" or "CSST" in each case do not include the selling stockholders. Unless the context otherwise requires, all references to (i) "Safetech" are to China Safetech Holdings Limited, a British Virgin Islands corporation; (ii) "Golden" are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People's Republic of China; (iii) "Chengfeng" are to Shanghai Chengfeng Digital Technology Co. Ltd. ; (iv) "BVI" are to British Virgin Islands; (v) "PRC" and "China" are to People's Republic of China; (vi) "U.S. dollar," "$" and "US$" are to United States dolla (vii) "RMB" are to Yuan Renminbi of China; (viii) "Securities Act" are to Securities Act of 1933, as amended; and (x) "Exchange Act" are to the Securities Exchange Act of 1934, as amended.

The Company

Overview

We are a holding company whose primary business operations are conducted through our subsidiary China Safetech Holdings Limited, a BVI corporation and its subsidiary Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the PRC. Golden's business is focused on manufacturing, distributing, installing and maintaining security and surveillance systems in China. Until our acquisition of Safetech in September 2005, our business strategy and ownership changed over the years as a result of several acquisitions of our stock that are discussed in the section below entitled "Our Background and History."

Our Background and History

We were incorporated in the BVI on April 8, 2002 under the name "Apex Wealth Enterprises Limited" as a corporation under the International Business Companies Ordinance of 1984. In February 2006, we changed our name to China Security and Surveillance Technology Inc. Prior to our reverse acquisition of Safetech, discussed in more detail below which was consummated on September 12, 2005, we were a development stage enterprise and had not yet generated any revenues. Prior to the reverse acquisition, we provided business advisory and management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the reverse acquisition, our business became the business of our indirect, wholly-owned subsidiary, Golden. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. We are headquartered in Shenzhen, China.

Reverse Acquisition with Safetech

On September 12, 2005, we acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of our common stock. As a result of this transaction, Safetech became our wholly-owned subsidiary, and Golden became our indirect wholly-owned subsidiary. Completion of the transaction resulted in a change in control of our Company. After the transaction, we were no longer a shell company. The contracts relating to this transaction have been filed as exhibits to our current report on Form 6-K that was filed with the SEC on July 22, 2005 incorporated herein by reference.

Upon the closing of the reverse acquisition, our sole director Szetang Li submitted his resignation letter pursuant to which he resigned from all offices of our Company that he then held, effective immediately, and from his position as our director, effective as of September 27, 2005.

For accounting purposes, the transaction was treated as a reverse acquisition, with Safetech as the acquirer and our Company as the acquired party. When we refer in this prospectus to business and financial information for periods prior to the consummation of the reverse acquisition, we are referring to the business and financial information of Golden on a consolidated basis unless otherwise specified.

Recent Acquisitions and Transactions

On October 25, 2005, we entered into an agreement with the equity owners of Shenzhen Yuan Da Wei Shi Technology Limited or Yuan Da, which was subsequently amended in April and May 2006. Pursuant to the amended agreement, we acquired all of the assets of Yuan Da. Yuan Da is a limited liability company established in Shenzhen, China and was principally engaged in the sale and development of security and surveillance systems. Under the agreement with Yuan Da, as amended, the purchase price consisted of (i) a cash payment of RMB 1,000,000 (approximately $125,000) and (ii) the issuance of 200,000 unregistered shares of our common stock valued at $500,000 (based upon the average closing market price during the twenty days before the date of the agreement).

On July 6, 2006, we entered into a stock transfer agreement with the shareholders of Chengfeng pursuant to which our subsidiary Safetech will acquire 100% ownership of Chengfeng, a leader in security surveillance software development and manufacturing in China. Chengfeng owns advanced video technology which integrates with other software and hardware applications. Proprietary software owned by Chengfeng includes the Security Resource Integration Management Platform and the Security Integration Platform, which are designed to integrate all security installations, both hardware and software, onto a single operating platform to greatly improve the management of the entire security system. Chengfeng has an established brand name and 22 valuable distribution channels across China. Under the agreement, we will pay consideration of RMB 120 million (approximately $15 million), consisting of RMB 60 million (approximately $7.5 million) in cash and RMB 60 million (approximately $7.5 million) in shares of our common stock. RMB 10 million (approximately $1.25 million) has been paid as of October 20, 2006. The balance of the cash portion of the purchase price, RMB 50 million (approximately $6.3 million), is due upon receipt of acknowledgement of the stock transfer by the Shanghai Industry & Commerce Bureau. The number of shares issuable in satisfaction of the equity portion of the purchase price is 1,331,376 (based upon the average of the closing price of our common stock on the OTCBB for the 20 trading days prior to the date of the execution of the agreement). The shares must be issued within 90 days following the receipt of the aforementioned approval from the Shanghai Industry & Commerce Bureau. We expect that we will obtain the necessary approval from the Shanghai Industry & Commerce Bureau before December 31, 2006.

On September 5, 2006, we entered into agreements to purchase the security and surveillance business of Jian Golden An Ke Technology Co. Ltd. or Jian An Ke, Shenzhen Golden Guangdian Technology Co. Ltd. or Shenzhen Guangdian, Shenyang Golden Digital Technology Co. Ltd. or Shenyang Golden and Jiangxi Golden Digital Technology Co. Ltd. or Jiangxi Golden, of which our CEO and director Guoshen Tu owns 80%, 60%, 42% and 90%, respectively. We refer to these companies in this prospectus as the Four-Related Companies. We were required to acquire the Four-Related Companies pursuant to a covenant contained in a securities purchase agreement with certain accredited investors, dated April 4, 2006. The covenant contained in the securities purchase agreement required us to acquire these four companies on or before October 4, 2006. Mr. Tu will not receive any consideration for the acquisition of his interest in the Four-Related Companies. However, his wife Zhiqun Li is a 20% shareholder of Jian An Ke and will receive 100,000 shares of our common stock as part of the transaction. The minority shareholders of these four companies, including Mr. Tu's wife, will receive in aggregate 850,000 shares of our common stock. Shenzhen Guangdian is engaged in the business of manufacturing and distributing security and surveillance products. The other three companies are engaged in the business of distributing security and surveillance products.

Our Business

Through Golden, we are engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Our customers are located throughout China.

Golden's customers are mainly government entities, non-profit organizations and commercial entities. Golden's marketing network divides China into nine geographic regions. Golden has 37 branch offices. Golden derives most of its revenues from the installation of security and surveillance systems as well as the sales of products including embedded digital video recorders, PC digital video recorders, mobile digital video recorders, digital cameras and auxiliary apparatus.

We have established a partnership with Beijing University to conduct our research and development on security and surveillance technology and the development of new products.

The Offering

Common stock offered by selling stockholders	4,883,334 shares
Common stock outstanding before the offering	29,209,259 shares (1)
Common stock outstanding after the offering	29,209,259 shares
Proceeds to us	We will not receive any proceeds from the sale of common stock covered by this prospectus.

(1) Represents the number of shares outstanding on the effective date of the merger where CSST BVI will be merged with and into CSST Delaware, with CSST Delaware being the surviving company. The purpose of such merger is to reincorporate CSST BVI from a BVI company to a Delaware company. The merger is hereinafter referred as the "Reincorporation Merger."

Selected Historical Financial Information

The following selected historical financial data of CSST BVI for the years ended December 31, 2003, 2004 and 2005 have been derived from the audited consolidated financials statements of CSST BVI. The selected historical financial data of CSST BVI for the years ended December 31, 2001 and 2002 and the six months ended June 30, 2005 and 2006 were unaudited. The selected historical financial data information is only a summary and should be read in conjunction with CSST BVI's historical consolidated financials statements and related notes contained elsewhere herein.

We have not included complete pro forma financial comparative per share information that gives effect to the Reincorporation Merger because, immediately after the completion of the Reincorporation Merger, the consolidated financial statements of CSST Delaware will be identical to CSST BVI's financial statements immediately prior to the Reincorporation Merger, and the Reincorporation Merger will result in the conversion of each share of CSST BVI common stock into the right to receive one share of CSST Delaware common stock. In addition, we have not provided financial statements of CSST Delaware because, prior to the Reincorporation Merger, it has no assets, liabilities or operations other than incident to its formation. Following completion of the Reincorporation Merger, CSST Delaware will assume all liabilities and obligations of CSST BVI.

(In US Dollar)

Statement of Income Data	**Years Ended December 31,**					**Six Months Ended June 30,**	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
Revenues	$ 4,045,098	$ 10,330,847	$ 11,794,869	$ 16,055,704	$ 32,688,582	$ 12,729,441	$ 22,609,172
Income From Operations	302,445	2,234,128	3,262,057	6,130,779	7,478,842	2,441,937	6,279,225

Net Income	257,078	1,899,009	2,752,123	5,724,026	7,265,957	2,618,780	6,036,481
Weighted Average Shares (Basic & Diluted)	17,000,000	17,000,000	17,000,000	17,000,000	18,521,479	17,000,000	23,046,766
Basic & Diluted Net Income per Share	0.015	0.11	0.16	0.34	0.39	0.15	0.26

Balance Sheet Data	**Years Ended December 31,**					**Six Months Ended June 30,**
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Total Assets	$ 10,687,966	$ 13,581,661	$ 16,976,999	$ 22,008,920	$ 29,116,672	$ 59,150,650
Total Current Liabilities	1,766,061	4,126,166	5,900,469	5,208,364	4,504,926	20,076,451
Net Assets	8,921,905	9,455,495	11,076,530	16,800,556	24,611,746	39,074,198
Total Shareholders' Equity	8,592,637	8,849,715	11,076,530	16,800,556	24,611,746	39,074,198

Risk Factors

Your investment in our common stock offered by this prospectus involves a high degree of risk. See "RISK FACTORS" beginning on page 4.

Additional Information

Our corporate headquarters are located at 4/F, East 3/B, Saige Science & Technology Park, Huaqiang, Shenzhen, China 518028. Our telephone number is (86) 755-83765666. We maintain a website at www.goldengroup.cn that contains information about our subsidiary Golden, but that information is not a part of this prospectus.

RISK FACTORS

The shares of our common stock being offered for resale by the selling stockholders are highly speculative in nature, involve a high degree of risk and should be purchased only by persons who can afford to lose the entire amount they invest in the common stock. Before purchasing any of the shares of common stock, you should carefully consider the following factors relating to our business and prospects. If any of the following risks actually occurs, our business, financial condition or operating results will suffer, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Due to the nature of our business, we do not have significant amounts of recurring revenues from our existing customers and we are highly dependent on new business development.

Most of our revenues derive from the installation of security and surveillance systems which are generally non-recurring. Our customers are mainly government entities, non-profit organizations and commercial entities (including airports, customs agencies, hotels, real estate developments, banks, mines, railways, supermarkets, and entertainment enterprises). We manufacture and install security systems for these customers and generate revenues from the sale of these systems to our customers and, to a lesser extent, from maintenance of these systems for our customers. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenues from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has several possible installation sites. Therefore, in order to maintain a level of revenues each year that is at or in excess of the level of revenues we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to increase our revenues and earnings or even sustain current levels in the future.

In order to grow at the pace expected by management, we will require additional capital to support our long-term business plan. If we are unable to obtain additional capital in future years, we may be unable to proceed with our long-term business plan and we may be forced to curtail or cease our operations.

We will require additional working capital to support our long-term business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, so as to enhance the overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

Our future success depends in part on attracting and retaining key senior management and qualified technical and sales personnel.

Our future success depends in part on the contributions of our management team and key technical and sales personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our Chief Executive Officer Mr. Guoshen Tu, our Chief Technical Officer Dr. Yong Zhao, our Chief Operating Officer Shufang Yang, our Vice President Jianguo Jiang and our Vice President Terence Yap. There is significant competition in our industry for qualified managerial, technical and sales personnel and we cannot assure you that we will be able to retain our key senior managerial, technical and sales personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. We also cannot assure you that our employees will not leave and subsequently compete against us. If we are unable to attract and retain key personnel in the future, our business, financial condition and results of operations could be adversely affected.

Our growth strategy includes making acquisitions in the future, which could subject us to significant risks, any of which could harm our business.

Our growth strategy includes identifying and acquiring or investing in suitable candidates on acceptable terms. We recently completed the acquisition of the assets of Shenzhen Yuan Da Wei Shi Technology Limited and acquired the security and surveillance business of the Four-Related Companies, and have entered into an agreement with the shareholders of Chengfeng to acquire 100% ownership of Chengfeng. In addition, over time, we may acquire or make investments in other providers of products that complement our business and other companies in the security industry.

Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- diversion of management’s attention from running our existing business;
- increased expenses, including travel, legal, administrative and compensation expenses resulting from newly hired employees;
- increased costs to integrate personnel, customer base and business practices of the acquired company with our own;
- adverse effects on our reported operating results due to possible write-down of goodwill associated with acquisitions;
- potential disputes with sellers of acquired businesses, technologies, services, products and potential liabilities; and

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- dilution to our earnings per share if we issue common stock in any acquisition.

Moreover, performance problems with an acquired business, technology, product or service could also have a material adverse impact on our reputation as a whole. In addition, any acquired business, technology, product or service could significantly under-perform relative to our expectations, and we may not achieve the benefits we expect from our acquisitions. For all of these reasons, our pursuit of an acquisition and investment strategy or any individual acquisition or investment could have a material adverse effect on our business, financial condition and results of operations.

<u>Our limited ability to protect our intellectual property may adversely affect our ability to compete</u>.

We rely on a combination of patents, trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. A successful challenge to the ownership of our technology could materially damage our business prospects. Our technologies may infringe upon the proprietary rights of others. We may be required to obtain from others licenses that may not be available on commercially reasonable terms, if at all. Our competitors may assert that our technologies or products infringe on their patents or proprietary rights. Problems with patents or other rights could increase the cost of our products or delay or preclude our new product development and commercialization. If infringement claims against us are deemed valid, we may not be able to obtain appropriate licenses on acceptable terms or at all. Litigation could be costly and time-consuming but may be necessary to protect our technology license positions or to defend against infringement claims.

<u>We sometimes extend credit to our customers. Failure to collect the trade receivables or untimely collection could affect our liquidity</u>.

We extend credit to a large number of our customers while generally requiring no collateral. Generally, our customers pay in installments, with a portion of the payment upfront, a portion of the payment upon receipt of our products by our customers and before the installation, and a portion of the payment after the installation of our products and upon satisfaction by our customer. Sometimes, a small portion of the payment will not be paid until after a certain period following the installation. We perform ongoing credit evaluations of those customers' financial condition and generally have no difficulties in collecting our payments. However, if we encounter future problems collecting amounts due from our clients or if we experience delays in the collection of amounts due from our clients, our liquidity could be negatively affected.

<u>If our subcontractors fail to perform their contractual obligations, our ability to provide services and products to our customers, as well as our ability to obtain future business, may be harmed</u>.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor. A failure by one or more of our subcontractors to satisfactorily perform the agreed-upon services may materially and adversely impact our ability to perform our obligations to our customers, and expose us to liability and could have a material adverse effect on our ability to compete for future contracts and orders.

<u>Safetech is a BVI company, while Golden is a PRC company, and all of our officers and directors reside outside the United States. Therefore, certain judgments obtained against our Company by our shareholders may not be enforceable in the BVI or China</u>.

Safetech is a BVI company and our operating subsidiary Golden is a PRC company. All of our officers and directors reside outside of the United States. All or substantially all of our assets and the assets of these persons are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the

United States upon our Company or such persons or to enforce against it or these persons the United States federal securities laws, or to enforce judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States, including the Securities Act and the Exchange Act.

RISKS RELATED TO OUR INDUSTRY

Seasonality affects our operating results.

Our sales are affected by seasonality. Our revenues are usually higher in the second half of the year than in the first half of the year because fewer projects are undertaken during and around the Chinese spring festival.

Our success relies on our management's ability to understand the highly evolving surveillance and security industry.

The Chinese surveillance and security industry is an immature and highly evolving industry. Therefore, it is critical that our management is able to understand industry trends and make good strategic business decisions. If our management is unable to identify industry trends and act in response to such trends, our business will suffer.

If we are unable to respond to the rapid technological changes in our industry and changes in our customers' requirements and preferences, our business, financial condition and results of operation could be adversely affected.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions or customer requirements, we could lose customers and market share. The electronic security systems industry is characterized by rapid technological change. Sudden changes in customer requirements and preferences, the frequent introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products, services and systems obsolete. The emerging nature of products and services in the electronic security systems industry and their rapid evolution will require that we continually improve the performance, features and reliability of our products and services. Our success will depend, in part, on our ability to:

- enhance our existing products and services;

- anticipate changing customer requirements by designing, developing, and launching new products and services that address the increasingly sophisticated and varied needs of our current and prospective customers; and

- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of additional products and services involves significant technological and business risks and requires substantial expenditures and lead time. If we fail to introduce products with new technologies in a timely manner, or adapt our products to these new technologies, our business, financial condition and results of operations could be adversely affected. We cannot assure you that even if we are able to introduce new products or adapt our products to new technologies that our products will gain acceptance among our customers. In addition, from time to time, we or our competitors may announce new products, product enhancements or technological innovations that have the potential to replace or shorten the life cycles of our existing products and that may cause customers to defer purchasing our existing products, resulting in inventory obsolescence.

We may not be able to maintain or improve our competitive position because of strong competition in the electronic security systems industry, and we expect this competition to continue to intensify.

The electronic security systems industry is highly competitive. There are about 9,000 companies in China that engage in the business of manufacturing, designing and building surveillance and security products. In addition, since China joined the World Trade Organization ("WTO"), we also face competition from international competitors. Some of our international competitors are larger than we and possess greater name recognition, assets, personnel, sales and financial resources. These entities may be able to respond more quickly to changing market conditions by developing new products and services that meet customer requirements or are otherwise superior to our products and services and may be able to more effectively market their products than we can because they have significantly greater financial, technical and marketing resources than we do. They may also be able to devote greater resources than we can to the development, promotion and sale of their products. Increased competition could require us to reduce our prices, result in our receiving fewer customer orders, and result in our loss of market share. We cannot assure you that we will be able to distinguish ourselves in a competitive market. To the extent that we are unable to successfully compete against existing and future competitors, our business, operating results and financial condition would be materially adversely affected.

Our business and reputation as a manufacturer of high quality surveillance and security equipment may be adversely affected by product defects or substandard performance.

We believe that we offer high quality products that are reliable and competitively priced. If our products do not perform to specifications, we might be required to redesign or recall those products or pay substantial damages. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products. In addition, product defects could result in substantial product liability. We do not have product liability insurance. If we face significant liability claims, our business, financial condition, and results of operation would be adversely affected.

Our product offerings involve a lengthy sales cycle and we may not anticipate sales levels appropriately, which could impair our profitability.

Some of our products and services are designed for medium to large commercial, industrial and government facilities desiring to protect valuable assets and/or prevent intrusion into high security facilities in China. Given the nature of our products and the customers that purchase them, sales cycles can be lengthy as customers conduct intensive investigations and deliberate between competing technologies and providers. For these and other reasons, the sales cycle associated with some of our products and services is typically lengthy and subject to a number of significant risks over which we have little or no control. If sales in any period fall significantly below anticipated levels, our financial condition and results of operations could suffer.

RISKS RELATED TO DOING BUSINESS IN CHINA

Economic, political, legal and social uncertainties in China could harm our future interests in China.

All of our future business projects and plans are expected to be located in China. As a consequence, the economic, political, legal and social conditions in China could have an adverse effect on our business, results of operations and financial condition. The legislative trend in China over the past decade has been to enhance the protection afforded to foreign investment and to allow for more active control by foreign parties of foreign invested enterprises. There can be no assurance, however, that legislation directed towards promoting foreign investment will continue. More restrictive rules on foreign investment could adversely affect our ability to expand our operations into China or repatriate any profits earned there. Some of the changes that could adversely affect us include:

- level of government involvement in the economy;
- control of foreign exchange;
- methods of allocating resources;
- balance of payments position;
- international trade restrictions; and
- international conflict.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development (“OECD”), in many ways. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

The legal environment in China is uncertain and your ability to legally protect your investment could be limited.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign-owned enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign-invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States, or to enforce a judgment obtained in the United States against us or any of these persons.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

Public health problems that may uniquely affect the Chinese population may disrupt our operations.

A renewed outbreak of severe acute respiratory syndrome or another widespread public health problem in China, where our operations are conducted, could have a negative effect on our operations.

Our operations may be impacted by a number of other health-related factors, including the following:

- quarantines or closures of some of our offices which would severely disrupt our operations;
- the sickness or death of our key officers and employees; and

- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could damage our operations.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The majority of our revenues will be settled in Renminbi, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, and only at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

The value of our securities will be affected by the foreign exchange rate between the U.S. Dollars and Renminbi.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs, should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of our Company, and the price of our common stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes, should the U.S. dollar appreciate against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

RISKS RELATED TO THE MARKET FOR OUR STOCK

We expect CSST Delaware common stock to be quoted only on the OTC Bulletin Board, which may have an unfavorable impact on stock price and liquidity.

CSST BVI common stock is quoted only on the OTCBB, and we expect CSST Delaware common stock to be quoted only on the OTCBB as well. The OTCBB is a significantly more limited market than the New York Stock Exchange or NASDAQ system. The quotation of our shares on the OTCBB may result in a less liquid market available for existing and potential stockholders to trade shares of the common stock, could depress the trading price of the common stock and could have a long-term adverse impact on our ability to raise capital in the future.

We are subject to penny stock regulations and restrictions.

The SEC has adopted regulations which generally define so-called “penny stock” to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. As of November 3, 2006, the closing sales price for our common stock was $8.24 per share, respectively. Although our share price is currently above the penny stock level, there is no assurance, given the volatility of the OTC market, that the CSST Delaware share price can be maintained above the penny stock level all the time. Although since September 2005, we have met the net worth exemption from the “penny stock” definition, no assurance can be given that CSST Delaware will maintain such exemption. As a “penny stock,” the common stock may become subject to Rule 15g-9 under the Exchange Act, or the “Penny Stock Rule.” This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and receive the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell CSST Delaware securities and may affect the ability of purchasers to sell CSST Delaware securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the Exchange Act rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that CSST Delaware common stock will qualify for exemption from the Penny Stock Rule. In any event, even if CSST Delaware common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

The number of shares being registered for sale is significant in relation to our trading volume.

All of the shares registered for sale on behalf of the selling stockholders may be subject to volume restrictions imposed upon those shares under Rule 145 of the Securities Act. We have filed this registration statement to register these shares for resale into the public market by the selling stockholders and thereby remove the otherwise possible volume limitation restrictions under Rule 145. These restricted securities, if sold in the market all at once or at about the same time, could depress the market price during the period the registration statement remains effective and also could affect our ability to raise equity capital.

Provisions in CSST Delaware's certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change of control of CSST Delaware or changes in its management and, therefore depress the trading price of the common stock.

Delaware corporate law and CSST Delaware's certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of CSST Delaware or changes in its management that the stockholders of CSST Delaware may deem advantageous. These provisions:

- deny holders of CSST Delaware common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of CSST Delaware outstanding shares of common stock will be able to elect all of CSST Delaware's directors;

- any stockholder wishing to properly bring a matter before a meeting of stockholders must comply with specified procedural and advance notice requirements; and

- any vacancy on the board of directors, however the vacancy occurs, may only be filled by the directors.

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirors at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus and other documents incorporated by reference into this prospectus contain or may contain "forward-looking statements."

These forward-looking statements include, without limitation, those statements as to:

- the anticipated closing date of the Reincorporation Merger;

- the benefit expected to result from the Reincorporation Merger;

- our future business activity, performance and financial condition following the Reincorporation Merger;

- the perceived advantages resulting from the Reincorporation Merger; and

- the ability to retain key personnel before and after the Reincorporation Merger.

Any statements contained herein, including, without limitation, statements to the effect that we or our management "believes," "expects," "anticipates," "plans," "may," "will," "projects," "continues," "estimates" or statements concerning "opportunity" or other variations thereof or comparable terminology or the negative thereof, that are not statements of historical fact should be considered forward-looking statements. Actual results could differ materially and adversely from those anticipated in the forward-looking statements as a result of several factors, including those set forth in "Risk Factors" beginning on page 5, which you should review carefully.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events, except as required by law.

USE OF PROCEEDS

The proceeds from the sale of the shares of our common stock being offered by the selling stockholders pursuant to this prospectus will belong to the selling stockholders. We will not receive proceeds from the sales of our common stock by the selling stockholders.

DETERMINATION OF OFFERING PRICE

The selling stockholders will determine at what price they may sell the offered shares, and such sales may be made at prevailing market prices or at privately negotiated prices.

DIVIDEND POLICY

We have never declared or paid cash dividends. Any future decisions regarding dividends will be made by our board of directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

CSST BVI’s common stock has been quoted on the OTCBB since June 2005 and currently trades under the symbol “CSSTF.OB.” The CUSIP number is G21161 10 7. CSST Delaware common stock is not publicly traded, and market price information is therefore not available. We expect that CSST Delaware common stock will trade on the OTCBB under the symbol “CSST.OB” immediately after the consummation of the Reincorporation Merger.

In February 2006, CSST BVI submitted an application for listing on the American Stock Exchange, which is pending. No assurances can be given as to whether or when the application will be approved.

The following table sets forth the quarterly high and low bid prices of a share of CSST BVI common stock as reported by the OTCBB for the periods indicated. The quotations listed below reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

	Closing Bid Price (US $) *	
	High	**Low**
Year Ended December 31, 2006		
1st quarter 2006	4.40	3.50
2nd quarter 2006	8.10	3.60
3rd quarter 2006	6.50	4.00
4th quarter 2006 (through November 3, 2006)	8.24	7.05
Year Ended December 31, 2005		
1st quarter 2005	N/A	N/A
2nd quarter 2005 (from June 23, 2005)	0.25	0.05
3rd quarter 2005	4.50	0.05
4th quarter 2005	3.00	1.85

Year Ended December 31, 2004		
1st quarter 2004	N/A	N/A
2nd quarter 2004	N/A	N/A
3rd quarter 2004	N/A	N/A
4th quarter 2004	N/A	N/A

* The above tables set forth the range of high and low closing bid prices per share of our common stock as reported by www.quotemedia.com for the periods indicated.

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Reports to Stockholders

After the consummation of the Reincorporation Merger, we plan to furnish our stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

Approximate Number of Holders of Our Common Stock

On November 3, 2006, there were approximately 48 stockholders of record of our common stock. This number excludes the 4,889,000 shares of CSST BVI common stock owned by individual stockholders holding stock under nominee security position listings.

DILUTION

Our net tangible book value as of June 30, 2006 was $1.57 per share of common stock. Net tangible book value is determined by dividing our tangible book value (total assets less intangible assets including know-how, trademarks and patents and less total liabilities) by the number of outstanding shares of our common stock. Since this offering is being made solely by the selling stockholders and none of the proceeds will be paid to us, our net tangible book value will be unaffected by this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data are the financial data for CSST BVI. It should be read in conjunction with our consolidated financial statements and the related notes, and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included elsewhere in this registration statement. The statement of operations data for the years ended December 31, 2003, 2004 and 2005, and the balance sheet data as of December 31, 2003, 2004 and 2005, are derived from, and are qualified by reference to, our audited consolidated financial statements that have been audited by GHP Horwath, P.C. and Child, Van Wagoner & Bradshaw, PLLC., independent auditors, and that are included in this prospectus. The statement of operations data for the fiscal years ended December 31, 2001 and 2002 and the balance sheet data as of December 31, 2001 and 2002 are derived from our unaudited consolidated financial statements that are not included in this registration statement. The statement of operations data for the six months ended June 30, 2005 and 2006 and the balance sheet data as of June 30, 2005 and 2006 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for the fair presentation of our financial position and results of operations for these periods. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that we will experience for the entire year. Historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,					Six Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
				(in thousands)			
Statement of operations data:							
Sales Revenues:	$ 4,045	$ 10,331	$ 11,795	$ 16,055	$ 32,689	$ 12,729	$ 22,609
Cost of Sales	3,349	7,030	7,581	8,796	23,473	9,849	15,175
Gross profit	696	3,301	4,214	7,259	9,216	2,880	7,434
Other income	42	30	7	467	568	241	700
Expenses:							
Administrative expenses	61	233	317	507	1,183	79	673
Amortization and depreciation	346	432	135	225	260	239	189
Operating expenses	-	424	507	391	288	120	293
Other operating expenses	29	8	-	6	7	-	-
Provision for doubtful debt	-	-	-	-	-	-	-
Selling expenses	-	-	-	-	-	-	-
	436	1,097	959	1,129	1,738	438	1,155
Income from continuing operations before taxes	302	2,234	3,262	6,597	8,046	2,683	6.979
Income taxes	45	334	517	873	780	64	943
Net income	257	1,899	2,752	5,724	7,266	2,619	6,036
Earnings per share - basic	$ 0.015	$ 0.11	$ 0.16	$ 0.34	$ 0.39	$ 0.15	$ 0.26
Earnings per share - diluted	0.015	0.11	0.16	0.34	0.39	0.15	0.26
Weighted average number of shares outstanding — basic	17,000	17,000	17,000	17,000	17,000	17,000	23,047
Weighted average number of shares outstanding —diluted	17,000	17,000	17,000	17,000	17,000	17,000	23,140
Cash dividend declared per common share	-	-	-	-	-	-	-
Cash flows data:							
Net cash flows provided by operating activities	$ (9)	$ (13)	$ 1,019	$ 684	$ 799	$ 1,442	$ (81)
Net cash flows used in investing activities	-	(2,673)	(676)	(111)	(79)	(139)	(1)
Net cash flows used in financing activities	-	(1,629)	72	(1,056)	1,062	1,007	7,360

	December 31,					June 30,
	2001	2002	2003	2004	2005	2006
Balance sheet data:			(in thousands)			

Cash and cash equivalents	$	970	$	101	$	515	$	33	$	2,277	$	9,618
Working capital		4,311		5,591		7,918		8,495		20,547		35,232
Total assets		10,688		13,582		16,977		22,009		29,117		59,150
Total current liabilities		1,766		4,126		5,900		5,208		4,505		20,076
Long term liability		-		-		-		-		-		-
Total liabilities		1,766		4,126		5,900		5,208		4,505		20,076
Total stockholders' equity		8,593		8,850		11,077		16,801		24,612		39,074

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We manufacture, distribute, install and service security and surveillance products and systems. We generate revenues from the sale of products to, the installation of our products for, and the delivery of after sales/installation services to, our customers. Our customers are mainly government entities (customs agencies, courts, public security bureaus and prisons), non-profit organizations (including schools, museums, sports arenas and libraries) and commercial entities (including airports, hotels, real estate developments, banks, mines, railways, supermarkets, hospitals and entertainment venues), which account for approximately 40%, 10% and 50% of our sales revenues, respectively.

Our revenues are not concentrated in any one customer or group of customers because a large portion of our sales revenue derives from the installation of projects. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenue from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has several possible installation sites. In addition, we have 37 branch offices all over China and we do not rely on customers located in particular geographic areas. As a result, in order to maintain a level of revenues each year that is at or in excess of the level of revenue we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to increase our revenues and earnings or even sustain current levels in the future.

Our Background and History

We were incorporated in the BVI on April 8, 2002 under the name "Apex Wealth Enterprises Limited" as a corporation under the International Business Companies Ordinance of 1984. In Febuary 2006, we changed our name to China Security and Surveillance Technology Inc. Prior to our reverse acquisition of Safetech, discussed in more detail below which was consummated on September 12, 2005, we were a development stage enterprise and had not yet generated any revenues. Prior to the reverse acquisition, we provided business advisory and management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the reverse acquisition, our business became the business of our indirect, wholly-owned subsidiary, Golden. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. We are headquartered in Shenzhen, China.

Reverse Acquisition with Safetech

On September 12, 2005, we acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of our common stock. As a result of this transaction, Safetech became our wholly-owned subsidiary, and Golden became our indirect wholly-owned subsidiary. Completion of the transaction resulted in a change in control of our Company. After the transaction, we were no longer a shell company. The contracts relating to this transaction have been filed as exhibits to our current report on Form 6-K that was filed with the SEC on July 22, 2005 and are incorporated herein by reference.

Upon the closing of the reverse acquisition, our sole director Szetang Li submitted his resignation letter pursuant to which he resigned from all offices of our Company that he then held, effective immediately, and from his position as our director, effective as of September 27, 2005.

For accounting purposes, the transaction was treated as a reverse acquisition, with Safetech as the acquirer and our Company as the acquired party. When we refer in this prospectus to business and financial information for periods prior to the consummation of the reverse acquisition, we are referring to the business and financial information of Golden on a consolidated basis unless otherwise specified.

Recent Acquisitions and Transactions

On October 25, 2005, we entered into an agreement with the equity owners of Yuan Da, which was subsequently amended in April and May 2006. Pursuant to the amended agreement, we acquired all of the assets of Yuan Da. Yuan Da is a limited liability company established in Shenzhen, China and was principally engaged in the sales and development of security and surveillance systems. Under the agreement with Yuan Da, as amended, the purchase price consisted of (i) a cash payment of RMB 1,000,000 (approximately $125,000) and (ii) the issuance of 200,000 unregistered shares of our common stock valued at $500,000 (based upon the average closing market price during the twenty days before the date of the agreement).

On July 6, 2006, we entered into a stock transfer agreement with the shareholders of Chengfeng pursuant to which our subsidiary Safetech will acquire 100% ownership of Chengfeng, a leader in security surveillance software development and manufacturing in China. Chengfeng owns advanced video technology which integrates with other software and hardware applications. Proprietary software owned by Chengfeng includes the Security Resource Integration Management Platform and the Security Integration Platform, which are designed to integrate all security installations, both hardware and software, onto a single operating platform to greatly improve the management of the entire security system. Chengfeng has an established brand name and 22 valuable distribution channels across China. Under the agreement, we will pay considerations of RMB 120 million (approximately $15 million), consisting of RMB 60 million (approximately $7.5 million) in cash and RMB 60 million (approximately $7.5 million) in shares of our common stock. RMB 10 million (approximately $1.25 million) has been paid as of October 20, 2006. The balance of the cash portion of the purchase price, RMB 50 million (approximately $6.3 million), is due upon receipt of acknowledgement of the stock transfer by the Shanghai Industry & Commerce Bureau. The number of shares issuable in satisfaction of the equity portion of the purchase price is 1,331,376 (based upon the average of the closing price of our common stock on the OTCBB for the 20 trading days prior to the date of the execution of the agreement). The shares must be issued within 90 days following the receipt of the aforementioned approval from the Shanghai Industry & Commerce Bureau. We expect that we will obtain the necessary approval from the Shanghai Industry & Commerce Bureau before December 31, 2006. Please see our current report on Form 6-K filed on July 7, 2006 for more details.

On September 5, 2006, we entered into agreements to purchase the security and surveillance business of the Four-Related Companies. We were required to acquire the Four-Related Companies pursuant to a covenant contained in a securities purchase agreement with certain accredited investors, dated April 4, 2006. The covenant contained in the securities purchase agreement required us to acquire these four companies on or before October 4, 2006. Mr. Tu will not receive any consideration for the acquisition of his interest in the Four-Related Companies. However, his wife Zhiqun Li is a 20% shareholder of Jian An Ke and will receive 100,000 shares of our common stock as part of the transaction. The minority shareholders of these four companies, including Mr. Tu’s wife, will receive in aggregate 850,000 shares of our common stock. Shenzhen Guangdian is engaged in the business of manufacturing and distributing security and surveillance products. The other three companies are engaged in the business of distributing security and surveillance products.

Material Opportunities and Challenges

Regulations promulgated by governmental agencies in China relating to security and surveillance often create opportunities for us. Currently, there are a number of formal and planned regulatory drivers which we believe offer significant growth opportunities. These include the estimated $6 billion to $12 billion that the Chinese government expects to spend for security infrastructure in preparation for the 2008 Olympics, along with the planned investment by Shanghai for the 2010 World’s Fair. In addition, several ordinances have been passed by the Chinese government which require security surveillance systems to be installed in: (1) 660 cities throughout China for street surveillance; (2) all entertainment locations; (3) all Justice Departments and Courts; and (4) all coal mines in China by the end of 2008 (currently estimated to be 28,000).

We are actively pursuing near-term acquisition prospects and other strategic opportunities, including the acquisition of Chengfeng that is pending government approval from Shanghai Industry & Commerce Bureau.

We have a government policy monitoring group within the Company that regularly monitors changes in governmental regulations affecting security and surveillance. If we determine that a new regulation or a change to an existing regulation presents an opportunity for us, we actively pursue such opportunity. As a result, we act promptly on policy changes and are able to turn them into business opportunities.

We believe that in order to compete effectively in this market, we need to constantly improve the quality of our products and deliver new products. As such, we face the challenge of expanding our research and development capacity. We need to maintain a strong and sufficient research and development team and identify the right directions for our research and development.

We also face the long-term challenge of maintaining our rapid growth. In addition to maintaining the growth of our existing business, we will also employ an acquisition strategy to ensure growth in future years.

Results of Operation

Three Months Ended June 30, 2006 and 2005

The following table summarizes the results of our operations during the three months ended June 30, 2006 and 2005 and provides information regarding the dollar and percentage increase from the 2005 fiscal period to the 2006 fiscal period:

All amounts, other than percentages, in millions of U.S. dollars

	Three Months Ended June 30,			
Item	**2006**	**2005**	**Increase**	**% Increase**
Revenue	$ 8.0	$ 5.5	$ 2.5	46.3%
Cost of Goods Sold	5.0	4.1	0.9	20.3%
Gross Profit	3.0	1.3	1.7	126.9%
Operating Expenses	0.6	0.5	0.1	29.5%
Other Income (expense)	0.5	0.1	0.4	279%
Provision for Taxes	0.3	(0.2)	0.5	-
Net Income	2.5	1.2	1.3	109.6%

Revenue

Revenue for the three months ended June 30, 2006 increased by 46.3% to $8.0 million against $5.5 million for the same period in 2005. The increase was mainly due to several reasons. First, the entire security and surveillance market in China has been expanding rapidly since the end of 2005. As the population in China in general has become wealthier, the demand for security products has grown. As a result, the demand from various industries and organizations has been increasing significantly. Second, the Chinese government began to require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems, which has also contributed to the increase of the demand for our products and services. Third, our strategic efforts to increase our distribution channels during 2004 and 2005 turned out to be a highly successful way to capture the wave of this growth in market demand. Finally, after we became a public reporting company in the U.S. through a reverse merger, we were able to raise sufficient working capital to facilitate our capturing more business.

During the second quarter of 2006, we signed 32 new contracts, 7 of which were completed by June 30, 2006. Based on Staff Accounting Bulletin (SAB) No. 104, we deferred the entire contract revenue for these 25 contracts at June 30, 2006 to the third fiscal quarter. The total value of the contracts signed and in progress in the second quarter was approximately $23 million. $5.7 million of this $23 million was recognized as revenue in the second quarter of 2006. Management expects that the remaining $17.9 million of revenue will be recognized in the third quarter of 2006.

Components of Revenues

The following table shows the different components comprising our total revenues over the three month periods ended June 30, 2006 and 2005.

All amounts in millions of U.S. dollars

	Three months ended June 30,	
	2006	2005

Security systems and installation	$	6.5	$	5.2
Sales of parts		1.5		0.3
Total	$	8.0	$	5.5

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For the three months ended June 30, 2006, we realized $5.7 million revenue from the installation of projects pursuant to contracts signed in the second fiscal quarter of 2006. We also realized approximately $0.8 million revenue from installation projects pursuant to contracts signed in the first quarter of 2006. Income from installation projects contributed approximately 81% of the total revenue for the three months ended June 30, 2006 as compared to approximately 95% for the same period in 2005. Management believes that revenues from the installation projects will continue to be our major revenue source. However, as we put more resources into research and development of products and the expected addition of Shenzhen Guangdian and Chengfeng, management believes that the percentage of revenue from the outright sale of products will increase in the future.

Cost of Goods Sold

Cost of goods sold for three months ended June 30, 2006 increased by 20.3% to $4.98 million from $4.14 million for the same period of 2005. Such increase was mainly attributable to the increase in sales revenue. However, the increase in sales revenue outpaced the increase in costs because we were able to purchase raw materials at lower prices due to higher sales volume.

Gross profit margin increased from 24.4% for the three months ended June 30, 2005 to 37.9% for the three months ended June 30, 2006. This was mainly attributable to the higher gross purchase margins and the large increase in sales. Gross margins improved significantly during the second quarter of 2006 because of the significant increase in our business volume and hence the size of orders from our vendors.

Selling and Marketing Expenses

Selling and marketing expenses were $0.17 million for the three months ended June 30, 2006, a $0.11 million increase as compared to $0.06 million for the same period of 2005. Such increase was mainly attributable to the hiring of new staff.

General and Administrative Expenses

General and administrative expenses were $0.38 million for the three months ended June 30, 2006 as compared to $0.31 million for the same period of 2005. We believe such increase was due to the hiring of additional staff, increased property tax expenses, research and development costs, and traveling expenses. General and administrative expenses consist mainly of salaries, office utility expenses and other daily office expenses.

Income taxes

We incurred income tax expenses of $0.3 million for the three months ended June 30, 2006, an increase of $0.5 million against the tax benefits of $0.2 million for the three months ended June 30, 2005. The main reason was the increase in net income.

In accordance with the relevant tax laws and regulations of the People’s Republic of China for the Shenzhen Special Economic Zone, the corporate income tax rate was 15% for the first half of fiscal year of 2006 and fiscal year 2005. We are not aware of any tax rate change in the near future.

Net income (profit after taxes)

We earned net income of $2.5 million for the three months ended June 30, 2006, an increase of 109.5% from $1.2 million for the same period of 2005. Such increase was mainly attributable to higher gross purchase margins and the large increase in sales. Gross margins improved significantly during the second quarter of 2006 because of the significant increase in our business volume and the resulting increase in the size of orders from our vendors.

Amount due from/(to) directors

We have received advances from a director. The advances are non-interest bearing and are repayable upon demand. The balance due to the director was $ 70,990 at June 30, 2006. We expect to pay off such balances before December 31, 2006.

Six Months Ended June 30, 2006 and 2005

The following table summarizes the results of our operations during the six months ended June 30, 2006 and 2005 and provides information regarding the dollar and percentage increase from the 2005 fiscal period to the 2006 fiscal period:

All amounts, other than percentages, in millions of U.S. dollars

Item	**Six Months Ended June 30, 2006**	**2005**	**Increase**	**% Increase**
Revenue	$ 22.6	$ 12.7	$ 9.9	77.6%
Cost of Goods Sold	15.2	9.8	5.4	54.1%
Gross Profit	7.4	2.9	4.5	158.1%
Operating Expenses	1.2	0.4	0.8	163.7%
Other Income (expense)	0.7	0.2	0.5	190.7%
Provision for Taxes	0.9	0.06	0.84	1375.5%
Net Income	6.0	2.6	3.4	130.5%

Revenue

Revenue for the six month period ended June 30, 2006 increased by 77.6% to $22.6 million from $12.7 million for the same period of 2005. The increase was mainly due to the same reasons as discussed above relating to the three month periods.

Components of Revenues

The following table shows the different components comprising our total revenues over the six month periods ended June 30, 2006 and 2005.

All amounts in millions of U.S. dollars

	Six months ended June 30, 2006	2005
Security systems and installation	$ 19.6	$ 12.0
Sales of parts	3.0	0.7
Total	$ 22.6	$ 12.7

For the six month period ended June 30, 2006, we realized $22.6 million in revenue. Income from installation projects contributed approximately 86.7% of the total revenue for the six month period ended June 30, 2006 as compared to approximately 95% for the same period in 2005. Management believes that revenues from the installation projects will continue to be our major revenue source. However, as we put more resources into research and development of products and the expected addition of Shenzhen Guangdian and Chengfeng, management believes that the percentage of revenue from the outright sale of products will increase in the future.

Cost of Goods Sold

Cost of goods sold for the six month period ended June 30, 2006 increased by 54.1% to $15.2 million against $9.8 million for the same period of 2005. Such increase was mainly attributable to the increase in sales volume.

Gross profit margin increased from 22.6% for the six month period ended June 30, 2005 to 32.9% for the six month period ended June 30, 2006. This was mainly attributable to an increase in sales volume and a decrease in raw material prices.

Selling and Marketing Expenses

Selling and marketing expenses were $0.3 million for the six month period ended June 30, 2006, a $0.18 million increase as compared to $0.12 million for the same period of 2005. Such increase was mainly attributable to the hiring of new staff.

General and Administrative Expenses

General and administrative expenses were $0.67 million for the six month period ended June 30, 2006 as compared to $0.08 million for the same period last year. We believe such increase was due to the hiring of additional staff, increased property tax, research and development costs, and traveling expenses. General and administrative expenses consist mainly of salaries, office utility expenses and other daily office expenses.

Income taxes

We incurred income tax expenses of $0.9 million for the six month period ended June 30, 2006, an increase of 1375.5% against the $0.06 million for the three month period ended June 30, 2006. The main reason for such increase was the rapid increase in net income.

In accordance with the relevant tax laws and regulations of the People's Republic of China for the Shenzhen Special Economic Zone, the corporate income tax rate was 15% for the three month periods ended June 30, 2006 and 2005.

Net income (profit after taxes)

We earned net income of $6.0 million for the three month period ended June 30, 2006, an increase of 130.5% from $2.6 million for the same period last year. Such increase was mainly attributable to the significant increase in our business volume and the resulting increase in the size of orders from our vendors.

Fiscal Years Ended December 31, 2005 and 2004

The following table summarizes the results of our operations during the fiscal years ended December 31, 2005 and 2004 and provides information regarding the dollar and percentage increase from the 2004 fiscal period to the 2005 fiscal period:

All amounts, other than percentages, in millions of U.S. dollars

	Year Ended December 31,			
Item	**2005**	**2004**	**Increase (decrease)**	**% Increase (decrease)**
Revenue	32.69	16.06	16.63	103.55%
Cost of Goods Sold	23.47	8.80	14.67	166.70%
Gross Profit	9.22	7.26	1.96	27.00%
Operating Expenses	1.74	1.14	0.60	52.63%
Other Income (expense)	0.57	0.47	0.10	21.28%
Provision for Taxes	0.78	0.87	(0.09)	(10.34%)
Net Income	7.27	5.72	1.55	27.10%

Fiscal Year Ended December 31, 2004 and 2003

The following table summarizes the results of our operations during the fiscal years ended December 31, 2004 and 2003 and provides information regarding the dollar and percentage increase from the 2003 fiscal period to the 2004 fiscal period:

All amounts, other than percentages, in millions of U.S. dollars

	Year Ended December 31,			
Item	**2004**	**2003**	**Increase**	**% Increase**
Revenue	16.06	11.79	4.27	36.22%
Cost of Goods Sold	8.80	7.58	1.22	16.09%
Gross Profit	7.26	4.21	3.05	72.45%
Operating Expenses	1.14	0.95	0.19	20.00%
Other Income (expense)	0.47	0.007	0.463	6614.28%
Provision for Taxes	0.87	0.52	0.35	67.31%
Net Income	5.72	2.75	2.97	108.00%

Revenue

Revenue for the year ended December 31, 2005 increased by 103.55% to $32.69 million from $16.06 million for the prior year. The substantial increase in revenue was mainly attributable to our increased marketing efforts, the increased brand recognition of our services and products and the growth of the Chinese security and surveillance market.

Revenue for the year ended December 31, 2004 increased by 36.22% to $16.06 million against $11.79 million for 2003. Such increase was mainly due to the growth of the Chinese security and surveillance market and the public's increased awareness of the importance of having security and surveillance systems.

Components of Revenues

The following table shows the different components comprising our total revenues over each of the past three fiscal years.

All amounts in millions of U.S. dollars

Revenue	**2005**	**2004**	**2003**
Project income from supply and installation of security and surveillance equipment	30.56	15.53	10.06
Outright sale of security and surveillance equipment	2.13	0.53	1.73

Income from installation projects contributed approximately 90% of the total revenue in each of 2003, 2004 and 2005. Management believes that revenues from the installation projects will continue to be our major revenue source. However, as we put more resources into research and development of products and the expected acquisition of Shenzhen Guangdian and Chengfeng, management believes that the percentage of revenue from the outright sale of products will increase in the future.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2005 increased by 166.70% to $23.47 million against $8.80 million for 2004. Such increase was mainly attributable to the increase of sales revenue.

Gross profit margin decreased from 45.21% for the year ended December 31, 2004 to 28.19% for the year ended December 31, 2005. This was mainly attributable to increased competition and our strategic decision in taking some projects that had a lower profit margin, but were important for gaining market share.

Cost of goods sold for the year ended December 31, 2004 increased by 16.09% to $8.80 million from $7.58 million for 2003. The increase was generally in line with the revenue increase.

Gross profit margin increased from 35.73% for the year ended December 31, 2003 to 45.21% for the year ended December 31, 2004 which was mainly attributable to the increase in our brand recognition which allowed us to have higher profit margins.

The following table illustrates in detail the items constituting our cost of goods sold.

All amounts, other than percentages, in millions of U.S. dollars

Cost Item	2005FY	2004FY	2003FY
Salary	1.09	1.01	0.25
Percentage	4.64%	11.48%	3.30%
Purchase	22.38	7.79	7.33
Percentage	95.36%	88.52%	96.70%
Total	23.47	8.80	7.58
Percentage	100%	100%	100%

Selling and Marketing Expenses

Selling and marketing expenses were $0.29 million for the year ended December 31, 2005, a $0.10 million decrease as compared to $0.39 million for the year ended December 31, 2004. We started building branches in provincial cities in China in the fiscal year of 2003, and incurred large costs in connection with setting up these branches. All of our branch offices were set up by the end of 2004. As a result, selling and marketing expenses decreased in 2005.

Selling and marketing expenses were $0.39 million for the year ended December 31, 2004 as compared to $0.50 million for the year ended December 31, 2003. The $0.11 million decrease in the selling and marketing expenses was mainly attributable to the larger costs incurred in connection with the initial setting up of the branches in 2003. Such expenses decreased in 2004.

General and Administrative Expenses

General and administrative expenses were $1.18 million for the year ended December 31, 2005 as compared to $0.51 million for the year ended December 31, 2004. We believe such increase was generally in line with the increase in revenue. General and administrative expenses consist mainly of salaries, office utility expenses and other daily office expenses.

General and administrative expenses were $0.51 million for the year ended December 31, 2004 as compared to $0.32 million for the year ended December 31, 2003. Such increase was mainly attributable to the increase in daily office expenses that resulted from the expansion of our business.

Finance Costs

We did not incur finance costs in 2003, 2004 and 2005, as we had no bank loans during these periods.

Income taxes

We incurred income tax expenses of $0.78 million for the year ended December 31, 2005, a decrease of 10.34% from the $0.87 million for the year ended December 31, 2004. We incurred a tax expense of $1.37 million in fiscal year 2005 due to higher revenue and profits in fiscal year 2005. However, $589,601 of the taxes paid was treated as net deferred tax assets. As a result, a $0.78 million income tax was recorded after deducting the $589,601 from the account of income taxes actually paid of $1.37 million.

We incurred income tax expenses of $0.87 million for the year ended December 31, 2004, an increase of 67.31% from $0.52 million for the year ended December 31, 2003. Such increase was mainly attributable to the higher revenue and the $0.48 million rental income we received from our related parties, namely Jiangxi Golden, Jiangxi Golden Motuo Che Zhizhao Co. Ltd. and Jian Golden An Ke Technology Co. Ltd. for renting our manufacturing plants in fiscal year 2004.

In accordance with the relevant tax laws and regulations of the People's Republic of China for the Shenzhen Special Economic Zone, the corporate income tax rate was 15% for the fiscal years 2005, 2004 and 2003. We are not aware of any tax rate change in the near future.

Net income (profit after taxes)

We earned net income of $7.27 million for the year ended December 31, 2005, an increase of 27.10% from $5.72 million for the year ended December 31, 2004. Such increase was mainly attributable to the increase in revenue.

We earned net income of $5.72 million in the year ended December 31, 2004, an increase of 108.00% from $2.75 million for the year ended December 31, 2003. Such increase was mainly attributable to the increase in revenue and the rental income as mentioned above.

Amount due from/(to) directors

We made advances to our directors which were non-interest bearing and were repayable upon demand. The balances due were $1,006,806 on December 31, 2004 and were repaid during 2005. These advances were made before the reverse acquisition of Safetech. Since the reverse acquisition, we have adopted a policy of not making any loans to our officers, directors or affiliates in order to comply with the requirements of the Sarbanes-Oxley Act of 2002.

We also received advances from one of our directors to facilitate our business operations during the years ended December 31, 2005 and 2004. Such loans were non-interest bearing and were payable upon demand. The balances due at December 31, 2005 and 2004 were $69,646 and $13,946, respectively. We expect to pay off such balances by the end of 2006.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

- *Basis of Consolidation* - The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated in the consolidation.

- *Deferred Income* - Deferred income represents amount billed for contracts for supply and installation of security and surveillance equipment which have not been fully completed at the balance sheet date.

- *Intangible Assets* - Intangible assets represent a surveillance recording system acquired from Yuan Da. The value was established by an independent accounting firm. The value of the recording system is to be amortized using the straight-line method over its estimated useful life of five years.

- *Inventories* - Inventories are stated at the lower of cost, determined on a weighted average basis, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized. Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the year the impairment or loss occurs.

· *Accounts Receivable* - Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

· *Advances to Suppliers* - Advances to suppliers represent the cash paid in advance for purchasing of inventory items from suppliers.

· *Revenue Recognition* - The Company derives the bulk of its revenue from the supply and installation of security and surveillance equipment, and the two deliverables do not meet the separation criteria under EITF issue 00-21. The installation is not considered to be essential to the functionality of the equipment having regard to the following criteria as set out in SAB 104:

(i) The security and surveillance equipment is a standard product with minor modifications according to customers' specifications;

(ii) Installation does not significantly alter the security and surveillance equipment's capabilities; and

(iii) Other companies which possess the relevant licenses are available to perform the installation services.

Accordingly, the portion of the contract price which is not payable until the installation service is completed is deferred until the completion of the installation service and the balance of the contract price is recognized as revenue upon delivery and acceptance of the security and surveillance equipment by the customers.

Certain contracts provide for the delivery and installation of equipment which may require extensive wiring and cofiguration. All revenue on these contracts is deferred until installation is complete and the Company has received customer acceptance.

Revenue from the outright sale of security and surveillance equipment is recognized when delivery occurs and risk of ownership passes to the customers. No right of return exists on the sale of security and surveillance equipment.

· *Foreign Currency Translation* - The functional currency of the Company is Renminbi (RMB) and RMB is not freely convertible into foreign currencies. The Company maintains its financial statements 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 which are prepared using the functional currency 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 the average exchange rates and shareholders' equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of shareholders' equity. The exchange rates adopted are as follows:

	2005	2004	2003

Year end RMB/US $: exchange rate	8.07	8.28	8.28
Average yearly RMB/US $: exchange rate	8.19	8.28	8.28

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation

· *Use of Estimates* - The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

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· *Income Taxes* - Income tax expense is based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. In accordance with Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes," these deferred taxes are measured by applying currently enacted tax laws.

Inflation

We believe our operations have not been and will not in the foreseeable future be materially adversely affected by inflation or changing prices.

Foreign Currency Translation Gain

Our operating subsidiary is located in China. The operating subsidiary purchases all products and renders services in China and receives payment from customers in China using Chinese Renminbi as the functional currency. We do not engage in currency hedging.

We incurred a foreign currency translation gain of $545,233 for the year ended December 31, 2005 as compared with no foreign currency translation gain for the period ended December 31, 2004. On July 21, 2005, China reformed its foreign currency exchange policy, revalued the Renminbi by 2.1% and allowed the Renminbi to appreciate as much as 0.3% per day against the U.S. dollar. As a result, we implemented different exchange rates in translating Renminbi into U.S. dollar in our financial statements for fiscal year 2005, the exchange rates of 8.07, 8.19 and 8.28 were implemented in calculating the assets and liabilities, revenue and expenses, and shareholders' equity, respectively, which results in a $545,233 foreign currency translation gain in fiscal year 2005.

Liquidity and Capital Resources

As of June 30, 2006 and December 31, 2005, we had cash and cash equivalents of $9.6 million and $2.3 million, respectively. The following table provides detailed information about our net cash flow for all financial statement periods presented in this prospectus.

Cash Flow

	Years Ended December 31,			Six Months Ended June 30,	
	2003	2004	2005	2005	2006
			(In thousands)		
Net cash provided by (used in) operating activities	$ 1,019	$ 684	$ 799	$ 1,443	$ (81)
Net cash provided by (used in) investing activities	$ (676)	$ (110)	$ (79)	$ (139)	$ (1)
Net cash provided by (used in) financing activities	$ 72	$ (1,056)	$ 1,063	$ 1,007	$ 7,360
Cash and cash equivalents at end of period	$ 516	$ 33	$ 2,277	$ 2,344	$ 9,618

Operating Activities:

Net cash used for operating activities was $0.08 million for the six month period ended June 30, 2006 which is a decrease of $1.5 million from the $1.4 million net cash provided by operating activities for the same period in 2005.

The decrease was mainly due to substantial increases in accounts receivables, inventories and advances to suppliers.

Net cash provided by operating activities in 2005 totaled $0.8 million, which is an increase of $0.1 million from net cash provided by operating activities of $0.7 million in 2004. The increase was mainly due to an increase in current liabilities.

Net cash provided by operating activities during 2004 totaled $0.7 million, which is a decrease of $0.3 million from net cash provided by operating activities of $1.0 million during 2003. The increased was mainly due to an increase in account receivables.

Investing Activities:

Our main uses of cash for investing activities are payments for the acquisition of property, plant and equipment.

Net cash used for investing activities in the six month period ended June 30, 2006 was $ 0.01 million, which is a decrease of $0.13 million from net cash used for investing activities of $0.14 million in the same period of 2005 due to the decrease in purchases of fixed assets.

Net cash used for investing activities in the year 2005 was $0.08 million, which is a decrease of $0.1 million from net cash used for investing activities of $0.1 million in 2004. The decrease for 2005 was primarily the result of the decrease in purchases of fixed assets.

Net cash used for investing activities in 2004 totaled $0.1 million as compared to $0.7 million used for investing activities in 2003. The $0.6 million decrease of net cash used for investing activities in 2004 was mainly attributable to the reversion of construction in progress.

Financing Activities:

Net cash provided by financing activities in the six month period ended June 30, 2006 totaled $7.3 million as compared to $1.0 million provided by financing activities in the same period of 2005. The increase in the cash provided by financing activities was mainly attributable to the issuance of new shares to investors.

Net cash provided by financing activities was $1.0 million in 2005 as compared to $1.0 million used for financing activities in 2004. Such increase was mainly attributable to the cash advance made to the Company by one of the directors.

Net cash used for financing activities was $1.0 million in 2004, a decrease of $1.0 million from net cash of $0.07 million provided by financing activities in 2003. Such decrease was mainly attributable to an advance made to one of our directors.

We are substantially debt-free and no credit facility has been applied for by our Company. In April 2006, we completed a private placement of shares of our common stock to 3 accredited investors. As a result of this private placement, we raised $8,000,000 in gross proceeds, which left us with approximately $7.36 million in net proceeds after the deduction of approximately $0.64 million of offering expenses. In July 2006, we raised another $16.2 million in gross proceeds from another private placement transaction, most of the $14.9 million net proceeds will be used for the acquisition of Chengfeng.

Other than the consideration to be paid to Chengfeng and the Four-Related Companies, we have no material commitments for capital expenditures as of September 30, 2006. As part of our business strategy, we may acquire other businesses engaged in similar or complementary industries if the appropriate opportunity arises. In that event, we may need to raise more capital from the equity market to finance such acquisition. However, we believe that our currently available working capital, after receiving the aggregate proceeds of the capital raising activities referred to above, should be adequate to sustain our operations at our current levels through at least the next twelve months.

Off-Balance Sheet Arrangements

We currently do not engage in any off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

Below is a brief summary of the payment obligations under materials contracts to which we are a party.

Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	0	0	0	0	0
Capital (Finance) Lease Obligations	0	0	0	0	0
Operating Lease Obligations	$ 93,286	$ 34,982	$ 58,304		