CHINA FIRE & SECURITY GROUP, INC.
Form 10-K
March 16, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period ______________ to ______________

Commission file number: 001-33588

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

Florida	65-1193022
(State of incorporation)	(I.R.S. Employer Identification No.)

B-2502 TYG Center, C2 Dongsanhuanbeilu,
Chaoyang District, Beijing 100027,
People's Republic of China
(Address of principal executive offices)

(86-10) 8441 7400
(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, $.001 Par Value	The Nasdaq Capital Market, LLC
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [x]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the 10,436,441 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was $95,806,528 as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, based on the last sale price of the registrant's Common Stock on such date of $9.18 per share, as reported by The NASDAQ Stock Market, Inc.

As of March 15, 2011, there were 27,855,934 shares of Common Stock of China Fire & Security Group, Inc. outstanding.

Except as otherwise indicated by the context, references in this Form 10-K to:

[ ] "China Fire & Security Group," the "Company," "CFSG," "we," "us" or "our" are references to the combined business of China Fire & Security Group, Inc. and its direct and indirect subsidiaries.

[ ] "U.S. Dollar," "$" and "US$" means the legal currency of the United States of America.
[ ] "RMB" means Renminbi, the legal currency of China.

[ ] "China" or the "PRC" are references to the People's Republic of China.
[ ] "U.S" is a reference to the United States of America
[ ] "SEC" is a reference to the Securities & Exchange Commission of the United States of America.

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PART I

Item 1. Business

Overview

We are engaged primarily in the design, development, manufacture and sale of a variety of fire safety products for the industrial and special purpose infrastructure industries and the design and installation of industrial fire safety systems in which we primarily use our own fire safety products. To a minor extent, we provide maintenance services on our industrial fire safety systems for our customers. Our business is primarily in China, where we operate sales and liaison offices in more than 20 cities; we are also expanding our business overseas by providing integrated fire safety systems to industrial clients globally.

We market our industrial fire safety products and systems primarily to major companies in the iron and steel, traditional power generation, nuclear power generation and petrochemical industries in China. In the last two years, we also secured several contracts with power generation plants in India. We are further developing our business in the transportation sector, which includes projects involving subways, highway tunnels, high speed trains and marine transportation, and telecommunications.

We have internal research and development facilities engaged primarily in furthering fire safety technologies. We believe that our technologies allow us to offer cost-effective and high-quality fire safety products and systems. We have developed products for industrial fire detecting and extinguishing. We believe that we are the leading manufacturer in China of such systems having successfully developed a comprehensive line of linear heat detectors.

Our company is the result of a share exchange completed on October 27, 2006 between Unipro Financial Services, Inc., a Florida corporation (“Unipro”) and the shareholders of China Fire Protection Group, Inc., a limited liability company organized under the laws of the British Virgin Islands (“CFPG”). The share exchange resulted in a change of control of Unipro, with the former shareholders of CFPG owning approximately 80.5% of the company on a fully diluted basis after the share exchange. The directors and officers of CFPG became our directors and officers in conjunction with the share exchange. Effective as of January 31, 2007 we changed our name to China Fire & Security Group, Inc.

We have twice been ranked as the leading Chinese industrial fire safety company by the China Association for Fire Prevention based on six major factors including total revenue, growth rate, net profit, return on assets, investment in research and development and intellectual property. During the last three years, we were also continuously ranked as the leading fire protection brand in China in a survey conducted by www.HC360.com. HC360 is a leading B2B electronic commerce services provider in China and runs the largest commercial website in China's fire protection industry (www.fire.HC360.com). Our key products include linear heat detectors and water mist extinguishers.

Our Strategies:

We aim to further leverage our total solution business model, proprietary core technology and products, and strong management team to seek innovations in total solution sales, systems and technologies, and project management and to achieve accelerated growth while significantly lowering costs. We intend to achieve our goals through the following key strategies:

We plan to continue to develop and capture opportunities in providing fire protection total solutions to high end customers in industrial and special purpose infrastructure industries.

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In the iron and steel industry, we will utilize our breakthroughs in the retrofitting and maintenance services area to win more contract opportunities in 2011 and 2012 and to capitalize on the industry's continued consolidation.

- We plan to promptly and selectively expand into new verticals and international markets. New targeted verticals include: conventional power plants, power transmission (grid), nuclear power plants, petroleum and natural gas, petrochemical, transportation (subways, highway tunnels, high speed trains), ships and marine transportation, telecommunications carriers.

We plan to further enhance proprietary product research and development, standardization, industrialization and intellectual property protection, in order to broaden our product portfolio, improve profitability, help penetrate new verticals, and increase product sales through direct and independent third-party channels.

- We plan to further enhance fire codes in the iron and steel industry and other new verticals and initiate improvements on certain current product standards at the national and international levels.
- In addition to core products in industrial fire detection and suppression systems, we plan to expand our product portfolio through internal development and partnership with third parties, and to provide our customers with integrated product development and scaled product manufacturing.
- We aim to increase the market share of our integrated products by offering total solutions to our customers as well as by product sales through independent channels.

We plan to build a stronger management platform to support accelerated business growth by improving corporate management capabilities in contract budgeting, financial control and auditing, and human resources management.

We will be strategic in joint venture and mergers and acquisition opportunities. Our objective in potential selective and strategic joint ventures and mergers and acquisitions is to augment our organic growth strategy.

Our Industry

The Industrial Fire Safety Industry

The fire safety industry can be generally divided into three major segments: residential, commercial and industrial. The industrial fire safety business requires greater technical expertise than the residential or commercial fire safety businesses due to the hazardous conditions of the industrial environment. Designers must consider a myriad of complex technologies, safety factors and unique fire hazard risks associated with various areas of production. Designers must also contend with adverse environmental problems such as humidity and dust and electro-magnetic interference to develop solutions to analyze and mitigate the spread of fire and chain reactions that are more likely to occur in the automated industrial production environment.

Along with China's modernization drive, its economy has witnessed significant growth in the past three decades, which brought about rapid growth in various industrial sectors, including the iron and steel as well as the power and petrochemical industries. Moreover, due to its investment environment and relatively low cost labor, China has attracted many manufacturers from developed countries. China's increasing industrial capacity has caused, and is anticipated to continue to cause, a high level of demand for industrial fire safety products and services.

Due to the increased loss of lives and properties as a result of fires, the Chinese government began to attach increasing importance to industrial fire safety in the 1990's. The government enacted various laws and issued regulations on fire safety, of which the most important included the Fire Safety Law of 1998 and the Safe Production Law of 2002. On May 1, 2009, the government released the amendment to the Fire Safety Law in which it stressed that the principal of an enterprise or a building is personally liable for fire casualties. These laws, while expressing the government's increased emphasis on fire safety, can be vague and are not in and of themselves responsible for the increase in demand. More important to the demand for products and services are fire codes for various industrial sectors. In April 2007, China's Ministry of Construction published a fire code entitled "Code of Design on Fire Protection and Prevention for Iron and Steel Metallurgy Enterprises", which became effective on January 1, 2008. This fire code is applicable to all new build-out of plants, and the expansion and renovation of the existing facilities of any iron and steel company.

The fire safety industry has historically used foreign products, which have been superior in technology and quality. In recent years, Chinese products have improved in terms of technology and quality and are being increasingly accepted. The competitive price of Chinese products has also become a competitive advantage.

The industry for the design, manufacture and installation of fire safety systems is fragmented with no dominant players. As a result, we believe that there is an opportunity for consolidation and expansion which will allow major players to emerge.

Our Leadership Position in the Industry

We began in 1995 as the first Chinese company specializing in industrial fire safety. We believe that we have established ourselves as the recognized leader in the industrial fire safety business in China based on the following competitive advantages:

A large number of mid-to-high end loyal customers in various industries:

China Fire has been issued the top level certificates for both System Contracting and Engineering from the Ministry of Construction of China. China Fire was ranked No. 1 in the survey of System Contracting Enterprises undertaken by China Fire Association in 2001. Leveraging its own products with proprietary technologies and comprehensive design experience, China Fire has superior capabilities and expertise in providing total fire protection systems to industrial customers. China Fire serves a long list of mid-to-high end loyal customers in various industries including iron and steel, petrochemical, traditional power, nuclear power, and transportation. We receive repeat business from these customers when they build new projects or rebuild their existing plants.

Technological leadership; several high valued proprietary intellectual properties:

China Fire has developed a series of proprietary technologies for industrial fire safety products including linear heat detectors which have been awarded dozens of patents worldwide. These technologies have enabled the Company to become one of the chief editors for relevant national fire product standards. Leading technologies, proprietary patent protection and our influence over fire safety standard have contributed to China Fire’s unique market leading position with sustainable advantages.

Lead and influence the enhancement of various national fire codes and product standards:

China Fire is an editorial member of the national Codes of Fire Protection Standards for Metallurgy, Iron & Steel Enterprises, and of the “Linear Heat Detector” and participates in various other fire codes at the national and provincial level. These enhancements have improved fire safety standards in China and created larger market demand for many products including our proprietary products which have better prices and reliability.

Specialized research and development centers and manufacturing bases for fire detection products and fire suppression products:

China Fire has a specialized research and development center and manufacturing base for fire detection products in Beijing and another research and development center and manufacturing base for fire suppression products in Tianjin. Recognized by the government as a high-tech enterprise, China Fire has ample manufacturing capacity to support its future business growth in specialized fire detection and suppression products.

Experienced management team with established track record for sustained growth:

China Fire has a strong management team which consists of experts in technology, sales and marketing and general management. The core team has both domestic experience and international vision with a strong track record in the fire protection industry.

Our Products and Services

Our major customers are in the iron and steel (contributing approximately 77.7% of revenues), traditional power generation (contributing approximately 6.9% of revenues) and petrochemical (contributing approximately 5.8% of revenues) industries. Our revenues are mainly from three sources: Total Solutions, Product Sales, and Maintenance Services. In 2010, revenues from total solutions accounted for approximately 74.5% of total revenues and the sale of products integrated accounted for approximately 21.0% of total revenues, while maintenance services accounted for approximately 4.5% of total revenues.

Total Solutions

We design and install total fire protection systems for our clients. A fire protection system consists of three major components: fire detectors, fire alarm control and network supervisory systems, and fire extinguishing systems. In most cases, we design and install all three components. The price of systems varies with the size and complexity of the installation, ranging from $10,000 to $92 million. In 2010, we designed and installed more than 220 systems. The design and installation of a system can take one month to three years, depending on the complexity of the system. Approximately 11% of the systems take less than one year to complete, while approximately 89% of the systems require more than one year. Revenues from total solutions typically can be broken down as follows: 50-65% of revenues from products manufactured by us; 25-40% of revenues from products manufactured by third parties; and 10% of revenues from services (the design and installation). The price of our own products incorporated into the total solution systems we design and install is similar to that sold directly to our customers. The markup for third party products is approximately 20-30%.

We maintain long-term relationships with the majority of our customers. In 2010, the top-five projects for total solution systems that we implemented for our customers (based on its revenue recognized and the percentage contribution) were as follows:

Top-Five Customers of Our Total Solutions in 2010

Name	Industry	Amount of Revenues (in thousands) ($)	Percentage of Total Solution Revenues
Wuhan Iron & Steel Group	Metallurgy	32,951	55.3%
Capital Iron & Steel Group (Caofeidian Project)	Metallurgy	5,067	8.5%
Anshan Iron & Steel Group Chaoyang Company	Metallurgy	2,116	3.5%
Handan Iron & Steel Baogang	Metallurgy	2,035	3.4%
Anshan Iron & Steel Group Bayuquan Company	Metallurgy	1,777	3.0%
Total		43,946	73.8%

Products

Depending on the requirements of our clients, we provide integrated fire protection products. By selling products we manufacture and incorporating products outsourced from third parties we provide a complete system for our clients. Such revenues do not include the sale of our products in connection with our total solution business or the design and installation of fire protection systems. We manufacture the following products, which can be divided into three categories according to their functions:

Fire Detectors. The products include:

- Linear Heat Fire Detectors
- Multi-Frequency Infrared Flame Detectors
- Infrared and Ultraviolet Composite Flame Detector
- Long Range Infrared Combustible Gas Detectors
- Fixed Point Combustible Gas Detectors
- Point Fire Detectors

Fire Alarm Control and Network Supervisory Systems. The products include:

- Fire Alarm Control Unit
- Electric Fire Monitoring System
- Fire Control Room Display System
- Fire Safety Monitoring Center System
- Remote Customer Service System

Fire Extinguishing Systems. The products include:

- Water Mist Fire-Extinguishing System
- Anti-False-Spray Water Spray Fire-Extinguishing System
- Gas-Based Fire-Extinguishing System
- Foam-Based Fire-Extinguishing System
- Portable and Transportable Fire Extinguishers
- High-Pressure Cylinders

We focus on the production and sales of our proprietary products, which are associated with our technologies and intellectual properties. The sales of our proprietary products, which include our liner heat detectors and water mist fire-extinguishing systems, contribute a higher gross margin than the products outsourced from the third parties.

In 2010, we developed new products, including infrared and ultraviolet composite flame detectors, electric fire monitoring system and high-pressure water mist fire-extinguishing system. We believe that the development of these new products will enhance our product offerings and strengthen our competitive position.

We have established quality assurance systems throughout the company and achieved ISO9001:2000 certification since 2001. ISO9001:2000 refers to a quality management system which demonstrates the company's ability to consistently provide products that meet applicable regulatory requirements and aim to enhance customer satisfaction. We believe these certifications are recognition of our commitment to and efforts in implementing and maintaining a quality management system in the design, manufacturing and sales of our fire safety products.

The tables below list our top-five Products Sales customers as of December 31, 2010. The amounts and percentages do not include the sales of our products as part of total solutions:

Top-Five Customers of Our Product Sales in 2010

Name	Industry	Sales in (in thousands) ($)	Percentage of Total Product Sales
Shenhua Group Baotou Coal Chemical Corporation	petrochemical	2,504	14.8%
China Nuclear Power Engineering Co., Ltd.	Nuclear	1,417	8.4%
Dongfang Electric Corporation	Power	989	5.9%
Wuxi Tianyou Special Detector Technology Corporation	Others	736	4.4%
Anshan Iron & Steel Group	Metallurgy	566	3.4%
Total		6,212	36.8%

Our Intellectual Property

We develop our own technologies for our products and services. We own 88 patents and have 16 pending applications in China and internationally. These patents are related to fire detecting, system control, and fire extinguishing technologies as listed in the table below.

Our Intellectual Properties

Product	Patents Issued	Patents Pending
Linear Heat Fire Detectors	70	14
Infrared Flame Detectors	1	0
Water Mist Nozzles	8	0
Remote System Control Device	0	0
Fire Alarm Control Device	0	0
Foamed-Based Fire Extinguishing Device	2	1
Others	7	1
Total	88	16

We own seven copyrights for software used for detecting assembly and control modules. We have developed proprietary software to provide localized and network-based fire detection and monitoring solutions. We believe that we are the first company in China to provide customers with remote system monitoring services based on our network-based solutions. From our centralized monitoring center, we can detect any status change (major alarm, critical alarm, fire alarm, etc.) in the major components of each system, upload information, and take appropriate actions if needed. We have been granted copyrights for such software by China's State Bureau of Copyrights.

We have thirteen registered trademarks for our products and services approved by the State Administration for Industry and Commerce of China,. In addition, we currently own three internet domain names "www.sureland.com.cn", "www.sureland.com." and "www.chinafiresecurity.com".

Our Research and Development Efforts

We currently have approximately 21 members on our research and development ("R&D") team. Most of our R&D staff have been working in the field of fire safety products for over five years. Research and development costs were $1,966,557 and $1,631,435 during the years ended December 31, 2010 and 2009, respectively.

Our research and development activities involve improving upon existing products, developing new products, designing better and more efficient fire safety systems, and developing new applications for such products and systems. We are currently developing new technologies for anti-explosive gas bottles, alternate foam storage and mix device and high-pressure water mist systems. We plan to conduct R&D to develop infrared flame detectors and industrial fire protection monitoring and control systems in the future. Our R&D activities also involve further developing and improving our core manufacturing technologies so that we can expand our product lines and reduce overall costs. We have entered into joint research and development agreements with some universities whereby we have exclusive ownership to any technology developed. These efforts have led to the successful development of numerous peripheral products for our fire safety systems. For example, we have enhanced our network based fire protection system monitoring software through a joint development program between the Company and Wuhan Iron and Steel University. In 2008, we established a Fire Safety Research Center with Wuhan Technology University.

To enhance our R&D capabilities, we completed the construction of a new R&D center in 2006, consisting of a 1,800 square meter building with new R&D equipment. The total spending for the construction and equipment was approximately $1 million. The center is devoted to our research and development efforts and to the development of integrated manufacturing practice and processes. The center is a base for training research and technical personnel and for developing additional proprietary technologies.

Our Marketing Efforts

Currently, we have established our position as the leading Chinese supplier of fire safety products and services in the iron and steel, power and petrochemical industries. We have installed 80% of the large systems in the iron and steel industry. Our business plan is to maintain our leadership and expand our market share in the iron and steel, power and petrochemical markets, while targeting several new market segments which we believe offer expansion opportunities, including transportation (highways, subways and railways) and nuclear power generation. We also have installed fire safety systems for the warehouses of distilleries and cigarette factories.

Our marketing efforts have made us one of the leading suppliers of fire safety products and services in China. All of our products and services are marketed and sold through our direct sales force. Under Chinese laws and regulations, a company which plans to install fire safety systems must apply to the relevant government agency for the approval of the project. Due to our relationship with these agencies, we are able to receive information about projects under consideration in advance and prepare for the bidding accordingly. Our sales force regularly visits the research and design institutes under those agencies to educate them with our products and to share with them our experiences in the design and deployment of fire protection systems for industrial facilities. These marketing efforts better position us for receiving contracts for fire safety systems when they design a new plant or facility. Almost all of our contracts are procured through an open bidding or invitation only bidding process. Contracts secured without bidding usually provides us with higher margins.

Our linear heat detectors and water/mist extinguishers have received the UL certification. We have an OEM arrangement with Xi'an System Sensor Electronics Co., Ltd., a China subsidiary of Honeywell, for OEM manufacturing of linear heat detectors for Honeywell. We have signed an additional three OEM manufacturing agreements with another two multinational companies under confidential terms.

We are actively expanding our marketing network into other parts of China. We have established sales offices and liaison offices in more than 26 locations. Mainly through internal growth, we project an increase in the number of sales and liaison offices. In April 2009, we entered into an agreement with Jinan Iron & Steel, China's eighth-largest steel producer and a leading exporter of medium and thick steel plates, to serve as the turn-key fire protection solution provider and to implement Jinan Iron & Steel's automated fire protection system.

Our sales team has approximately 60 members. To expand distribution channels and increase our market share, we regularly attend industrial exhibitions organized by local and national industrial associations. We run advertisements in major industry journals, magazines and catalogues. We also run advertisements on industry websites including www.china-fire.com and www.fire.hc360.com.

Material and Parts Supply

We manufacture products that provide higher margins and subcontract products with comparatively lower margins. Given the importance to our business of key materials and parts, the purchasing and management of these important functions are top priorities. We carefully manage our purchasing efforts and have established company policies involving materials and parts procurement. The cost of materials for our own products is approximately 80-90% of the total production cost.

Supplier Management System

We have adopted measures to reduce risks in materials and parts supply, including 1) obtaining better services and higher quality, 2) diversifying suppliers and supply sources, and 3) seeking long-term contracts with suppliers.

Purchasing Procedures

Our production department collaborates with our quality and procurement department to produce a list of qualified suppliers that is based on quality, price, technical competency and capacity. Purchasing transactions are sometimes conducted in accordance with procedure for bidding invitations. Potential suppliers are evaluated on their proposed terms, technical specifications, price, payment terms and timing for delivery. After validation of the various suppliers' service stable supply capabilities, we acquire the needed materials and parts from the supplier offering the best terms. Our procurement department establishes an oversight process by appointing individuals to conduct periodic market research of key price points. There is a standard procedure for conducting said bidding process and accepting the bids to insure that all of the purchasing procedures are being strictly followed. We enter into long-term contracts with certain suppliers to lock in prices and send purchase orders for each delivery when necessary. Our long-term supply contracts do not contain any minimum unconditional purchase requirements.

Major Suppliers

The tables below list our top five suppliers as of December 31, 2010

Major Suppliers of Materials and Parts for Our Own Products

Item	Suppliers	Amount Purchased in 2010 (in thousands) ($)	Percentage of Total Purchase
Electronic parts	Beijing Huataichuang Technology Co., Ltd.	220	11.5%
Electric box	Beijing Qingxianfangzheng Electric Box Co., Ltd.	211	11.0%
Infra red flame detectors	Shandong Automatic System Engineering Co., Ltd.	167	8.7%
Cable	Nanjing Xianbang Technology Co, Ltd.	168	8.8%
Copper	Xinlide (Tianjin) Metal Manufacture Co, Ltd.	68	3.5%
Total		835	43.6%

Major Suppliers for Third Party Products of Our Fire Safety Systems

Item	Suppliers	Amount Purchased in 2010 (in thousands) ($)	Percentage of Total Purchase
Sprayer, valves, gas extinguishers	Tianjin Tianxiao Security Equipment Corporation	3,887	20.6 %
Fire prevention materials	Wuhan Chenjie Technology Co., Ltd.	2,956	15.6%
Cable	Beijing Kexun Cable Co., Ltd	650	3.5%
Fire prevention materials	Shanghai Pudong Special Fire Safety Equipment Corporation	573	3.1 %
Pipes	Tianjin Shengdefa Metal Material Co., Ltd	471	2.6 %
Total		8537	45.4%

Our Competition

The fire safety market in China is intensely competitive and includes thousands of companies. We compete primarily in providing total fire safety solutions including engineering and installations to end customers. We also compete in the market for providing fire safety products.

The market for the design and installation of fire safety systems includes numerous small and mostly regional competitors. Consequently, we believe that our leading position in the industry has enabled us to win a high percentage of our bids (e.g., around 60-70% of bids in the iron and steel industry). We compete on design, technology, track record, price, quality of products, expertise and ability to complete the job in time. We believe that the fact that we use our own products also adds to our competitive positioning. While these factors play a less significant role in bidding for smaller jobs, we have twice been recognized as the industry leader by the China Association of Fire Prevention based on numerous significant factors including total revenue and profit. Foreign competitors normally do not engage in system integration due to their disadvantage in labor costs and the requirement of Chinese certificates.

We compete with both foreign competitors and local manufacturers for our products. Foreign-made products have historically had an advantage over Chinese-made products because of superior technology and quality. We believe that the demand for foreign products has begun to decline because of improvements in Chinese technology and as the technology and quality gaps narrow, the price advantage that Chinese-made products typically have has increased demand for Chinese-made products. We have developed numerous patented products with technological superiority over our competitors. Our China-based competitors tend to focus on low-end and technologically less sophisticated products that have lower quality and are not suitable for large projects. Most of the China-based companies have lower operating expenses and often compete with lower pricing.

Although we are currently successful in providing total fire safety solutions to our customers, there is no assurance that we will continue to be able to do so in the future. We have been successful in the iron and steel, power and petrochemical industries, but as we move into new industrial sectors, our lack of proprietary products that may be required by those industries may limit our market acceptance.

Our Employees

As of December 31, 2010, we employed 465 full-time employees. Approximately 10.1% of our employees are management personnel, 4.5% are R&D staff members and 12.7% are sales staff members. Approximately 57.0% of our employees have college degrees or higher.

Under Chinese law, our employees have formed labor unions which serve to protect employees' rights, aim to assist in the fulfillment of our economic objectives, encourage employee participation in management decisions and assist in mediating disputes. We believe that we maintain a satisfactory working relationship with our employees and have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

As required by applicable Chinese law, we have entered into employment contracts with all of our employees. We have also entered into confidentiality agreements with all of our employees under which our employees are prohibited from disclosing confidential information of the Company or using it for purposes other than the benefit of the Company. Directors, officers, mid-level managers and certain key employees in sales and R&D are required to sign a non-compete agreement that prohibits them from competing with the Company while they are employees of the Company and within two years after their employment with the Company is terminated.

Our employees in China participate in a state pension arrangement organized by Chinese municipal and provincial governments. We are required to contribute to this arrangement at the rate of 20% of the average monthly salary. In addition, we are required by Chinese law to cover employees in China with other types of social insurances. Our total contribution may amount to 30% of the average monthly salary of an employee. We have purchased social insurance for all of our employees. In the event that any current employee, or former employee, files a complaint with the Chinese government, we may be required to purchase insurance for said employee, and we may be subject to administrative fines. We believe that such fines, if imposed, are immaterial.

Item 1A. Risk Factors

Cautionary Statement Regarding Future Results, Forward-Looking Information And Certain Important Factors

In this report we make, and from time to time we will otherwise make, written and oral statements regarding our business and its prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statements, which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other of our representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement. Some of these important factors include the risk factors below.

An investment in our Common Stock is speculative and involves a high degree of risk. You should carefully consider the risks described below and the other information in this Form 10-K before purchasing any of our Common Stock. If any of the events described in the risk factors below actually occur, our business, financial condition or results of operations could suffer significantly. In such case, the value of your investment could decline and you may lose all or part of the money you paid to buy our Common Stock.

Risks Related To Our Business

Disruptions in the capital and credit markets related to the current national and worldwide financial crisis, which may continue indefinitely or intensify, could adversely affect our results of operations, cash flows and financial condition, or those of our customers and suppliers.

The current disruptions in the capital and credit markets may continue indefinitely or intensify, and adversely impact our results of operations, cash flows and financial condition, or those of our customers and suppliers. These disruptions could adversely affect our ability to draw on our bank revolving credit facility, which is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed to conduct or expand our businesses or conduct acquisitions or make other discretionary investments, as well as our ability to effectively hedge our currency or interest rate. Such disruptions may also adversely impact the capital needs of our customers and suppliers, which, in turn, could adversely affect our results of operations, cash flows and financial condition.

Our products and services have relied on a few industries. We may not be able to increase the market for our products and services in other industries.

Presently, our products and services are mainly sold to the iron and steel, traditional power generation, petrochemical and nuclear power industries. Our products and services, therefore, depend heavily on a limited number of industries. Our growth potential may be limited if we cannot expand the market for our products and services. Although we have increased our research and development to expand the range of application of our products and services, there is no assurance that we will succeed in our effort.

Price increases of raw materials such as copper and steel could increase the cost of our products and reduce our profit margin.

Copper is the major material for our linear heat detectors and stainless steel is the major material for our fire extinguishing nozzles. In the last three years, the prices of copper and steel have fluctuated substantially as have other raw materials. Although we have managed to minimize the impact of such fluctuation in the past by passing the cost increase on to our customers, there is no assurance that we will be able to do so in the future. If the price for copper and steel increases more significantly and we cannot increase our selling price, our profit margin could decrease significantly.

We may not be able to secure financing needed for future operating needs on acceptable terms, or on any terms at all.

From time to time, we may seek additional financing to provide the capital required to maintain or expand our design and production facilities, research and development initiatives and equipment and/or working capital, as well as repay outstanding loans if cash flow from operations is insufficient to do so. We cannot predict with certainty the timing or amount of any such capital requirements. If such financing is not available on satisfactory terms, we may be unable to expand our business or to develop new business as the rate desired, and our operating results may suffer. If we are able to incur debt, we may be subject to certain restrictions imposed by the terms of the debt and the repayment of such debt may limit our cash flow and our ability to grow. If we are unable to incur debt, we may be forced to issue additional equity, which could have a dilutive effect of the then current holders of equity.

Our strategic alliances may not achieve their objectives.

Currently, we have agreements with two multinational companies to supply our linear heat detectors. The strategic alliances are intended to enhance or complement our technology or work in conjunction with our technology, increase our manufacturing capacity, provide additional components or materials, and develop, introduce and distribute products using our technology and know-how. If these alliances do not achieve their objectives or parties to our strategic alliances do not perform as contemplated, our growth may be adversely affected.

Expansion of our business may put added pressure on our management and operational infrastructure impeding our ability to meet any increased demand for our products and services and possibly hurting our operating results.

Our business plan is to significantly grow our operations to meet anticipated growth in demand for our products and services. Our planned growth includes the increase of our line of products and expansion of sales in our existing markets as well as entry into new markets over the next few years. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. The evolution of our business also presents numerous risks and challenges, including:

- the continued acceptance of our products and services by the iron and steel, power and petrochemical industries;

- our ability to successfully and rapidly expand sales to potential customers in response to potentially increasing demand;

the costs associated with such growth, which are difficult to quantify, but could be significant;

rapid technological change; and

the highly competitive nature of the industrial fire safety industry.

If we are successful in obtaining rapid market growth of our products and service, we will be required to deliver large volumes of quality products and services to customers on a timely basis at a reasonable cost. Meeting any such increased demands will require us to expand our manufacturing facilities, to increase our ability to purchase raw materials, to increase the size of our work force, to expand our quality control capabilities and to increase the scale upon which we provide our products and services. Such demands would require more capital and working capital than we currently have available and we may be unable to meet the needs of our customers.

Our business depends on our ability to protect our intellectual property effectively. If any of our patents are not protected, or any of our trade secrets are divulged, we may lose our competitive edge.

The success of our business depends in substantial measure on the legal protection of the patents and other proprietary rights in the technology we hold. We hold issued patents and pending patent applications in China related to technologies important to our business. Monitoring infringement of intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property and know-how in China where, in comparison to the United States, the laws may be difficult to enforce to fully protect our proprietary rights. The validity and breadth of claims in patents and trade secrets involve complex legal and factual questions and, therefore, the extent of their enforceability and protection is highly uncertain. Issued patents or patents based on pending patent applications or any future patent applications or trade secrets may not exclude competitors or may not provide a competitive advantage to us. In addition, patents issued or licensed to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. Furthermore, we cannot ensure that our competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us.

We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to products and manufacturing processes. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements. If these contractual measures fail to protect our proprietary rights, any advantage those proprietary rights provided to us would be negated. Some of our products are based on formulas. The formulas are maintained as trade secrets and are revealed only to a small number of technical and management personnel. The trade secrets provide us with a competitive edge in the linear heat technology and to the best of our knowledge, no other manufacturers have successfully developed such technology. If any of the trade secrets are divulged, we could lose our competitive edge in the linear heat technology and others.

We receive a significant portion of our revenues from a small number of customers. Our business will be harmed if our customers reduce their orders from us or if significant orders are not completed successfully.

A significant amount of our revenues are derived from only a small number of customers mainly in the iron and steel, traditional power, petrochemical and nuclear power industries. In aggregate, our five largest customers in our total solutions and products businesses accounted for approximately 73.8% and 36.8%, respectively, of our revenues from these segments in fiscal 2010. Dependence on a few customers could make it difficult to negotiate attractive prices for our products and could expose us to the risk of substantial losses if a single dominant customer stops purchasing our products. If we lose any customers and are unable to replace them with other customers that purchase a similar amount of our products and services, our revenues and net income would decline considerably.

In February 2010, we entered into an agreement with Wuhan Iron and Steel (Group) Corporation ("WISCO"), pursuant to which we have agreed to complete the retrofitting total solution project of the fire protection facilities for WISCO's thirty-two plants located in Qingshan, Hubei Province, by the end of 2011 for approximately $92 million. We believe that this total solution project for WISCO will account for a significant portion of our total revenue in the near future. Any unexpected disruption or slowdown in the execution of the obligations of this agreement could result in a material adverse affect on our business, financial condition and results of operations and cause us to fall short of our financial guidance in the future.

We extend relatively long payment terms for accounts receivable. If any of our customers fails to pay us, our revenues may be affected as a result.

Our standard practice is to charge our customers 10%-30% of the contract amount up front and collect the balance according to a schedule based on the progress of a project. However, many of our customers are state-owned enterprises and may be slow in their payment process. As a result of the size of many of our contracts, their delayed payments adversely affect our cash flow and our ability to fund our operations out of our operating cash flow. In addition, although we attempt to establish appropriate reserves for our receivables, those reserves may not prove to be adequate in view of actual levels of bad debts. The failure of our customers to pay us in a timely manner could negatively affect our working capital, which could, in turn, adversely affect our cash flow. Although, on occasion payments have been delayed, no customer has failed to pay us however, there is no assurance that they will be able to pay in the future.

Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management.

Our future success is heavily dependent upon the continued service of our key executives, particularly Mr. Weigang Li, our Chairman, Mr. Brian Lin, our Chief Executive Officer, Tongzhuo Qin, our Chief Financial Officer, Mr. Weishe Zhang, our Vice President of Strategic Planning, Mr. Robert Yuan, our Principal Accounting Officer and several other key sales and project management executives in our subsidiary Sureland Industrial Fire Safety Limited. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team. If one or more of our current or future key executives and employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into an employment agreement with us. We also rely on a number of key technology staff for the operation of our Company. Given the competitive nature of our industry, the risk of key technology staff leaving our Company is high and could disrupt our operations.

We may seek to make acquisitions that prove unsuccessful or strains or diverts our resources.

We may seek to expand our business through the acquisition of related businesses and assets. We may not be able to complete any acquisitions on favorable terms or at all. Acquisitions present risks that could materially and adversely affect our business and financial performance, including:

- the diversion of our management's attention from our everyday business activities;
- the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and
- the need to expand management, administration, and operational systems.

If we make such acquisitions we cannot predict whether:

- we will be able to successfully integrate the operations and personnel of any new businesses into our business;
- we will realize any anticipated benefits of completed acquisitions; or

there will be substantial unanticipated costs associated with acquisitions, including potential costs associated with environmental liabilities undiscovered at the time of acquisition.

In addition, future acquisitions by us may result in:

potentially dilutive issuances of our equity securities;

the incurrence of additional debt;

restructuring charges; and

the recognition of significant charges for depreciation and amortization related to intangible assets.

We will incur increased costs as a result of changes in laws and regulations relating to corporate governance matters.

As a public reporting company, we will need to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations adopted by the SEC and by The NASDAQ Capital Market, including expanded disclosures, accelerated reporting requirements and more complex accounting rules. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements will increase our costs and require additional management resources. Additionally, these laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We are presently evaluating and monitoring developments with respect to these laws and regulations and cannot predict or estimate the amount or timing of additional costs we may incur to respond to their requirements.

We may not be able to achieve and maintain an effective system of internal control over financial reporting, a failure which may prevent us from accurately reporting our financial results or detecting and preventing fraud.

We are subject to reporting obligations under the U.S. securities law. Beginning with our annual report on Form 10-KSB for the fiscal year ending December 31, 2007, we will be required to prepare a management report on our internal control over financial reporting containing our management’s assessment of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over our financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may still decline to attest to the effectiveness or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

Risks Related To Our Industry

Our market will open to foreign companies. China’s commitments under the World Trade Organization (“WTO”) may intensify competition.

In connection with its accession to the WTO, China made many commitments including opening its markets to foreign products and services, allowing foreign companies to conduct distribution businesses and reducing customs duties. As a result, foreign manufacturers may ship more industrial fire safety products into China or they may establish manufacturing facilities and service centers in China. Competition from foreign companies may squeeze our profit margins and our business results will suffer as a result.

The fire protection total solution market is fragmented and susceptible to consolidation, which could adversely affect us.

We engage in providing fire protection total solutions that consist of the design and installation of fire safety systems. The market is fragmented in the sense that there are many, typically small, suppliers. The market may be subject to consolidation and, if so, we may not be a major player. If so, our fire protection total solution business could suffer and this business is a major source of sales of our own products and profitability.

Our customers will decrease their capital expenditure if China's economy slows down. Such a slowdown may affect our growth.

Our industry is cyclical in nature and highly dependent on economic conditions. Over the last three decades, China's economy has been growing at an average annual rate of 9-10%. There can be no assurance that China's economy will continue to grow at such pace in the future. If the economy slows down, our customers will cut their capital expenditure and, hence, order less of our products and services. Our growth may suffer as a result.

High margins for the industrial fire safety business will attract more businesses to enter this field. Our business could suffer as a result of more competition.

So far, our business has enjoyed relatively high profit margins due to the fact that we have concentrated in industrial fire safety. Such high margins will attract more businesses to enter into this field. As a result, competition may intensify and our profits may drop significantly.

If we cannot compete successfully for market share against other industrial fire safety products companies, we may not achieve sufficient product revenues, and our business will suffer.

The market for our products and services is characterized by intense competition and rapid technological advances. Our products and services compete with a multitude of products and services developed, manufactured and marketed by others and we expect competition from new market entrants in the future, including as a result of the WTO. Existing or future competing products may provide better quality and technology, greater utility or lower cost or other benefits from their intended uses than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues, and our business could suffer.

Gross margins could be lower in new industrial sectors.

We enjoy relatively high margins in our main markets including iron and steel, power generation and petrochemical. As we start bidding for projects in new industrial sectors including subways, highway tunnels, and nuclear plants, we might not be able to sell our products at the gross margins that we enjoy in our main markets. Our overall gross margin could be adversely affected.

Risks Related To Doing Business in China

Changes in China’s political or economic situation could harm us and our operational results.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some of the things that could have this effect are:

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

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. The economic reforms in China have been conducted under a tight grip of the Chinese government. 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.

Our business is largely subject to the uncertain legal environment in China and your legal protection 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 invested 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 shareholders, 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 U.S., and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for shareholders to affect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited. Our operating subsidiaries are incorporated in non-U.S. jurisdictions, we conduct substantially all of our operations in China, and all of our officers reside outside the United States.

We conduct substantially all of our operations in China through our wholly owned subsidiaries in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in China in the event that you believe that your rights have been infringed upon under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. As a result of all of the above, our public stockholders may have more difficulty in protecting their interests through actions against our management, directors or major stockholders than would stockholders of a corporation doing business entirely within the United States.

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

China has only recently 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.

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 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. While inflation has been more moderate since 1995, 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.

We have limited insurance coverage and may incur losses due to business interruptions resulting from natural and man-made disasters, and our insurance may not be adequate to cover liabilities resulting from accidents or injuries that may occur.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited commercial insurance products. We carry auto insurance on our vehicles. We do not carry any product liability insurance or property insurance on our office buildings, our industrial sites or other property. We believe that current facilities are adequate for our current and immediately foreseeable operating needs. We do not have any policies regarding investments in real estate, securities or other forms of property. We have determined that balancing the risks of disruption or liability from our business, or the loss or damage to our property, including our facilities and equipment, the cost of insuring for these risks on the one hand, and the difficulties associated with acquiring such insurance on commercially reasonable terms on the other hand, makes it impractical for us to have such insurance.

Should any natural catastrophes such as earthquakes, floods, or any acts of terrorism occur in city of Beijing, PRC, where our primary operations are located and most of our employees are based, or elsewhere, we might suffer not only significant property damage, but also loss of revenues due to interruptions in our business operations. The occurrence of a significant event for which we are not fully insured or indemnified, and/or the failure of a party to meet its underwriting or indemnification obligations, could materially and adversely affect our operations and financial condition. Moreover, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable.

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 primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, 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.

Cessation of the income tax reduction and exemption for our subsidiaries may have an adverse impact on our net profits.

From January 1, 2008, under new Chinese income tax law, a company would ordinarily be subject to the PRC income tax rates of 25%. However, the law also provides tax exemption or reduction for high-tech businesses and foreign invested enterprises (“FIE”). As a result, some of our subsidiaries are currently enjoying a tax reduction of and/or exemption from state and local income tax. For details, please see the income taxes section of “Management Discussion and Analysis.” If the Chinese government decides to change the tax law, our revenues and profit could suffer.

A new Chinese law may impact our ability to make acquisitions of Chinese businesses.

On August 8, 2006, six PRC regulatory agencies namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission (“CSRC”), and the State Administration of Foreign Exchange, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “New M&A Rule”), which became effective on September 8, 2006. The New M&A Rule purports, among other things, to require offshore Special Purpose Ventures, formed after the effective date, for overseas listing purposes, through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

The Company intends to make acquisitions of Chinese businesses in the future. There are uncertainties regarding the interpretation and application of the current or future PRC laws and regulations, including the New M&A Rule and these uncertainties could make it difficult or impossible to make acquisitions of Chinese businesses in the future.

Foreign investment policy changes may adversely affect our income and results of operations.

On March 16, 2007, China’s parliament, the National People’s Congress, adopted the Enterprise Income Tax Law, which took effect on January 1, 2008. The new income tax law sets unified income tax rates for domestic and foreign companies at 25% and abolishes the favorable policy for foreign invested enterprises. After January 1, 2008, newly established foreign invested enterprises will not enjoy favorable tax treatment permitted under prior tax laws. Some of our subsidiaries are benefiting from the preferred tax rates for foreign companies and will follow the new tax rate when their respective term of preferred tax rates expires. Our net income margin will be affected at that time.

If the government changes its policies on the value added tax rebate, our revenues and profit could be adversely affected.

Under Chinese tax law, businesses should pay a value added tax at a 17% rate. To support the development of the software industry, the Chinese government has instituted policies to rebate value added tax charged for software certified by the government up to 14%. As a result, our subsidiary Hua An Limited, is paying its value added tax at an effective rate of 3% for the software they sell. However, the Chinese government changes its policies from time to time. If the Chinese government changes the policies currently in place for the value added tax rebate, our revenues and our profit could suffer.

The value of our securities will be affected by the foreign exchange rate between 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 and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the 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 and the U.S. dollar appreciates 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

The trading prices of many companies that have business operations only in China have been volatile which may result in large fluctuations in the price of our Common Stock and losses for shareholders.

The stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many companies that have business operations only in China. These fluctuations have often been unrelated or disproportionate to the operating performance of many of these companies. Any negative change in the public's perception of these companies could depress our stock price regardless of our operating results. The market price of our Common Stock has been and may continue to be volatile. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. These factors include:

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new products or services by us or our competitors;
- announcements relating to strategic relationships or acquisitions;
- additions or terminations of coverage of our Common Stock by securities analysts;
- statements by securities analysts regarding us or our industry;
- conditions or trends in the our industry; and,
- changes in the economic performance and/or market valuations of other industrial fire safety companies.

The prices at which our Common Stock trades will affect our ability to raise capital, which may have an adverse affect on our ability to fund our operations.

We do not intend to pay any dividends on our Common Stock in the foreseeable future.

We currently intend to retain all future earnings, if any, to finance our current and proposed business activities and do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. We may also incur indebtedness in the future that may prohibit or effectively restrict the payment of cash dividends on our Common Stock.

Certain stockholders can exert control over the Company and may not make decisions that further the best interests of all stockholders.

Our officers, directors and principal stockholders (greater than 5% stockholders) together will own an aggregate of approximately 59.9% of our outstanding Common Stock on a fully diluted basis. Consequently, these stockholders, if they act individually or together, may exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change of control of us and might affect the market price of our Common Stock, even when a change of control may be in the best interest of all stockholders. Furthermore, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements which we would not otherwise consider.

Item 1B. Unresolved Staff Comments

There are no unresolved comments from the SEC.

Item 2. Properties

All land in China is owned by the State. Individuals and companies are permitted to acquire rights to use land or land use rights for specific purposes. In the case of land used for industrial purposes, the land use rights are granted for a period of 50 years. This period may be renewed at the expiration of the initial and any subsequent terms. Granted land use rights are transferable and may be used as security for borrowings and other obligations.

We currently own approximately 23,573 square meters of land in Beijing, consisting of manufacturing facilities, employee quarters, warehouses, and office buildings. We also own approximately 945 square meters of office space in downtown Beijing, which serves as our headquarters.

Item 3. Legal Proceedings

In 2009, we filed four lawsuits against four different companies for the infringement of our intellectual properties in linear heat detectors and three of these four lawsuits had been settled in our favor. We expect the one pending case will be settled in our favor. In 2009, we were counter-sued by one of the companies we filed suit against in two cases for the invalidation of our intellectual properties in linear heat detectors. As of March 10, 2011, these two cases are pending. We expect these two pending cases to be settled in our favor.

In 2010, we filed six lawsuits against five different companies for the infringement of our intellectual properties in linear heat detectors. By March 10, 2011, three of these six lawsuits had been settled in our favor and the other three cases are still pending. We expect the three pending cases filed in 2010 will be settled in our favor in the future. In 2010, we were counter-sued by two of the companies we filed suits against for the invalidation of our intellectual properties in linear heat detectors and all three cases were settled in our favor.

Although we cannot predict with certainty the result of the litigation matters, we believe that the outcomes of the above described matters will not have a material adverse effect on our business or results of operations.

PART II

Item 5. Market For Registrant's Common Equity, Related Shareholder Matters, And Issuer Purchases Of Equity Securities

Market Price Information

Our Common Stock has been quoted on The NASDAQ Capital Market under the symbol "CFSG" since July 16, 2007. The following table provides the high and low sales prices for our Common Stock as reported for the periods indicated.

Year ending December 31, 2011	High	Low
First Quarter (up to March 11)	$ 7.33	$ 5.45

Year ending December 31, 2010	High	Low
First Quarter	$ 15.80	$ 10.94
Second Quarter	$ 14.60	$ 9.18
Third Quarter	$ 9.60	$ 6.67
Fourth Quarter	$ 8.76	e 6.40

Year ending December 31, 2009	High	Low
First Quarter	$ 8.73	$ 6.11
Second Quarter	$ 14.87	$ 7.69
Third Quarter	$ 21.72	$ 10.33
Fourth Quarter	$ 19.60	e 12.14

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On March 11, 2011, the last reported sale price of our Common Stock on The NASDAQ Capital Market was $6.24 per share.

Shareholders

As of March 11, 2011, we had outstanding 27,855,934 shares of Common Stock, held by approximately 1,000 stockholders of record and beneficially.

Dividend Policy

To date, we have neither declared nor paid any cash dividends on shares of our Common Stock. We presently intend to retain earnings to finance the operation and expansion of our business and do not anticipate declaring cash dividends in the foreseeable future.

Repurchases of Equity Securities

No repurchases of our Common Stock were made in any month within the fourth quarter of the fiscal year covered by this report.

Item 6. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the financial statements and related notes, and the other financial information included in this report.

CONSOLIDATED STATEMENTS OF INCOME	Years Ended December 31				
	2010	2009	2008	2007	2006
Revenues	79,976,682	$81,181,198	$69,079,119	$46,753,837	$32,455,036
Cost of revenues	38,698,240	34,127,922	29,581,246	21,090,854	16,226,307
Gross profits	41,278,442	47,053,276	39,497,873	25,662,983	16,228,729
Operating expenses	23,776,073	19,468,840	15,931,124	10,776,553	8,250,285
Income from operations	17,502,369	27,584,436	23,566,749	14,886,430	7,978,444
Other income (expenses)	1,060,616	940,704	1,184,526	1,920,287	(926,597)
Income before provision for income taxes and noncontrolling interest	18,562,985	28,525,140	24,751,275	16,806,717	7,051,847
Provision for income taxes	3,210,378	4,165,548	47,423	5,081	82,206
Less: Net income (loss) attributable to noncontrolling interest	(85,328)	(55,244)	-	-	-
Net income attributable to controlling interest	15,437,935	24,414,836	24,703,852	16,801,636	6,969,641
Comprehensive income	19,464,303	$24,433,912	$28,440,879	$19,304,231	$7,551,573
Weighted average number of shares	27,618,465	27,590,523	27,568,214	26,873,742	24,340,196
Earnings per share	0.56	$0.88	$0.90	$0.63	$0.29
Weighted average number of shares Diluted	29,568,429	28,311,955	28,210,620	27,721,171	24,539,414
Earnings per share Diluted	0.52	$0.86	$0.88	$0.61	$0.28

CONSOLIDATED BALANCE SHEETS	Years Ended December 31				
	2010	2009	2008	2007	2006
Cash and cash equivalents	28,151,689	34,976,880	26,655,333	17,110,449	9,426,091

Accounts receivables – current, net of allowance	41,840,062	30,989,569	25,826,343	16,525,161	13,211,721
Receivables from related party	2,448,066	551,792	466,223	-	-

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Inventories	6,713,448	5,360,520	6,538,938	4,048,283	4,190,830
Total current assets	150,033,254	121,046,728	91,449,840	62,190,368	43,295,272
Plant and equipment, net	9,641,119	8,617,521	8,445,254	6,568,250	3,529,808
Total assets	171,535,816	138,366,191	105,408,918	71,646,427	48,308,828
Total current liabilities	43,556,150	33,966,635	26,719,771	21,438,311	20,649,342
Total shareholder's equity	127,979,666	104,366,814	78,689,147	50,208,116	24,978,675

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis provides information which the management of China Fire & Security Group, Inc. believes to be relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read together with the Company's financial statements and the notes to financial statements, which are included in this report.

Overview

We are engaged in the design, development, manufacturing and sale of fire protection products and services for large industrial firms in China and international markets. We have developed a proprietary product line that addresses all aspects of industrial fire safety from fire detection to fire system control and extinguishing. The Company is one of the first companies in China to utilize high technology for fire protection and safety of its clients including iron and steel companies, power plants, petrochemical plants, as well as, special purpose construction companies in China and other international markets.

Reorganization

We were organized as a Florida corporation on June 17, 2003.

On September 1, 2006, we entered into a share exchange agreement, pursuant to which we acquired all of the outstanding capital shares of China Fire Protection Group Inc. ("CFPG") in exchange for a controlling interest in our Common Stock. The transaction was completed on Oct 27, 2006.

CFPG was organized on June 2, 2006 for the purpose of acquiring all of the capital shares of Sureland Industrial Fire Safety Limited ("Sureland Industrial"), a Chinese corporation, and, Sureland Industrial Fire Equipment Co., Ltd. ("Sureland Equipment"), a Chinese corporation, which collectively engage in the design, development, manufacturing and sale of fire protection products and services for large industrial consumers in China. As a result of the transactions described above, both Sureland Industrial and Sureland Equipment became wholly-owned subsidiaries of China Fire Protection Group Limited ("CFPG"), and CFPG is a wholly-owned subsidiary of Unipro Financial Services, Inc., a Florida corporation ("Unipro").

On February 9, 2007, Unipro changed its name to China Fire & Security Group, Inc. and started trading on OTC Bulletin Board under its new ticker symbol CFSG. On July 16, 2007, China Fire & Security Group, Inc. began trading on Nasdaq Capital Market and retained the ticker symbol CFSG.

CFSG owns, through its wholly owned subsidiary China Fire Protection Group, Inc., Sureland Industrial and Sureland Equipment (jointly "Sureland"). Sureland is engaged primarily in the design, development, manufacture and sale in China of a variety of fire safety products for the industrial fire safety market as well as the design and installation of industrial fire safety systems that utilize a combination of fire safety products including its own fire safety products. To a minor extent, it also provides maintenance services for customers that use its industrial fire safety systems. Its business is primarily in China, but it has gradually increased its business in other countries like India and Indonesia.

Sureland markets its industrial fire safety products and systems primarily to major companies in the iron and steel, power and petrochemical industries in China and international market. It has also completed projects for highway and railway tunnels, wine distilleries, tobacco warehouses and a nuclear reactor. It is expanding its business in the transportation, marine transport, nuclear energy, and public space markets. Its products can be readily adapted for use on marine transportation and in exhibition halls and theatres. It plans to expand its marketing efforts to secure business in these industries.

Sureland has internal research and development facilities engaged primarily in furthering fire safety technologies. It believes that its technologies allow it to offer cost-effective and high-quality fire safety products and systems. It has developed products for industrial fire detecting and extinguishing. It believes that it is the largest manufacturer in China that has successfully developed a comprehensive line of linear heat detectors.

In May 2009, Beijing Shian Kexin Technology Co., Ltd. ("Shian Kexin") was incorporated in Beijing, China under the laws of the PRC with registered capital of RMB5,000,000 or approximately $748,500. Shian Kexin is 100% owned by Sureland Industrial.

In May 2009, Shenyang Hongshida Electronics Co., Ltd. ("Hongshida") was incorporated in Shenyang, Liaoning Province, China under the laws of the PRC with registered capital of RMB10,000,000 or approximately $1,497,000. Hongshida is 80% owned by Beijing Hua An Times Fire Safety Technology Co., Ltd. ("Beijing Hua An") with a 20% non-controlling interest owned by an unrelated party. Beijing Hua An is 100% owned by Sureland Industrial.

During the first quarter of 2010, our wholly-owned subsidiary, China Fire Protection Group, Inc. entered into an agreement with Zeetech System Private Limited ("Zeetech"), our subsidiary in which we control 100% (99% direct holding, 1% through nominee holding where the nominee agrees to hold the shares on behalf of CFPG), pursuant to which China Fire Protection Group Inc.'s entire interest (75%) in Sureland Industrial shall be transferred to Zeetech. On March 12, 2010, the restructuring transaction was approved by the Chinese Ministry of Commence. Subsequent to the transfer, China Fire & Security Group, Inc. still holds 100% of the interest in Sureland Industrial through its subsidiaries.

During the fourth quarter of 2010, our wholly-owned subsidiary, China Fire Protection Group, Inc. entered into an agreement with Zeetech System Private Limited ("Zeetech") pursuant to which Zeetech's entire interest (75%) in Sureland Industrial shall be reverted back to China Fire Protection Group, Inc. On December 9, 2010, the reverse transaction was approved by the Chinese Ministry of Commence. Subsequent to the transaction, China Fire & Security Group, Inc. still holds 100% of the interest in Sureland Industrial through its subsidiaries.

As of December 31, 2010, Sureland operated more than 26 sales and liaison offices in China.

Sureland has twice been ranked as the leading Chinese industrial fire safety company and the largest contractor by the China Association for Fire Prevention based on six major factors including total revenue, growth rate, net profit, return on assets, investment in research and development and intellectual property. Its key products include linear heat detectors and water mist extinguishers, whose sales volumes are the largest in China. Customers in over 20 provinces have utilized its products.

Critical Accounting Policies and Estimates

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements appearing at the end of this report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results.

Certain of the Company's accounting policies require higher degree of judgment than others in their application. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements:

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company as follows:

1. Revenue recognition of total solution contracts: Historically more than 70% of our revenues are derived from long-term, fixed price total solution contracts for which revenues and estimated profits are recognized using the percentage of completion method of accounting. Under this method revenue recognized based upon the ratio that incurred costs to date bear to total estimated contract costs at completion with related cost of sales recorded as costs are incurred. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Selling and administrative costs are charged to expense as incurred. Risks and uncertainties inherent in the estimation process could affect the amounts reported in our financial statements. The key assumptions used in the estimate of costs to complete relate to the unit material cost, the quantity of materials to be used, the installation cost and those indirect costs related to contract performance. The estimate of unit material cost is reviewed and updated on a quarterly basis, based on the updated information available on the supply markets. The estimate of material quantity to be used for completion and the installation cost is also reviewed and updated on a quarterly basis, based on the updated information on the progress of projection execution. If the supply market conditions or the progress

of projection execution were different, it is likely that materially different amounts of contract costs would be used in the percentage of completion method of accounting. Thus the uncertainty associated with those estimates may impact our consolidated financial statements.

2. Revenue from product sales is recognized when the goods are delivered and title has passed. Product sales revenue is presented net of a value-added tax ("VAT"). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

3. Revenue from the rendering of Maintenance Services is recognized over the service period on a straight-line basis.

In accordance with ASC 605-15, "Revenue Recognition when Right of Return Exists," revenue is recorded net of an estimate of markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The Company uses their local currency, Renminbi and Indian Rupee ("INR"), as their functional currency. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of changes in equity.

Asset and liability accounts at December 31, 2010 were translated at 6.59 RMB to $1.00 and 45.45 INR to $1.00 as compared to 6.82 RMB to $1.00 and 46.89 INR to $1.00 at December 31, 2009 respectively. Equity accounts were stated at their historical rate. The average translation rates of RMB applied to income statements accounts for the year ended December 31, 2010, 2009 and 2008 were 6.78 RMB, 6.82 RMB and 6.94 RMB, respectively. The average translation rates of INR applied to income statements accounts for the years ended December 31, 2010 and 2009 were 45.87 INR and 48.85 INR, respectively. Cash flows are also translated at average translation rates for the period, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Historically, the Company has not engaged in any currency trading or hedging transactions, although there is no assurance that the Company will not enter into such transactions in the future.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

Certain of the Company's accounting policies require higher degrees of judgment than others in their application. These include the recognition of revenue and earnings from system contracting projects under the percentage of completion method, impairment of long-lived assets and the allowance for doubtful accounts. Management evaluates all of its estimates and judgments on an on-going basis.

Accounts receivable

Accounts receivable represents amounts due from customers for products sales, maintenance services and system contracting projects. The credit term is generally for a period of three months for major customers. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In order to mitigate the adverse liquidity impact of the delays in customer payments, we can negotiate with our suppliers for a better payment term, in order to slow down our payments to our suppliers in the future. However, due to the limited number of qualified suppliers available in the market, the potential delay in our payments to suppliers cannot significantly offset the adverse liquidity impact of the delays from our customer payments.

Allowance for doubtful accounts

We establish an allowance for doubtful accounts based on management's assessment of the collectability of our account receivables. A considerable amount of judgment is required in assessing the amount of the allowance. We consider the historical level of credit losses, apply percentages to aged receivable categories, make judgments about the creditworthiness of each customer based on ongoing credit evaluations, and monitor current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers were to deteriorate, resulting in their inability to make payments, a larger allowance may be required.

Based on the above assessment, during the reporting years, the management establishes the general provision policy to make allowance equivalent to the sum of 3% of amount of account receivables less than 1 year, 15% of amount of account receivable between 1 year to 2 years, 40% of amount of account receivable between 2 years to 3 years and 100% of amount of account receivable above 3 years. Additional specific provision is made against account receivables to the extent which they are considered to be doubtful.

Bad debts are written off against allowance for doubtful accounts when identified. We do not accrue any interest on accounts receivable. Historically, losses from uncollectible accounts have not deviated from the general allowance estimated by the management and no bad debts have been written off against allowance for doubtful accounts directly to the profit and loss. This general provisioning policy has not changed in the past since establishment and the management considers that the aforementioned general provisioning policy is adequate and does not expect to change this established policy in the near future. Any changes on the estimates on our general provision policy could have a material effect on our results of operations.

Valuation of Long-Lived Assets

We assess the impairment of long-lived assets, which include goodwill, identifiable intangible assets, and property and equipment ("P&E"), at least annually for goodwill or whenever events or changes in circumstances indicate that the carrying value may not be recoverable for all long-lived assets. Changes in the underlying business could adversely affect the fair value of the enterprise and intangible asset and P&E asset groups. Important factors which could require an impairment review include: (i) underperformance relative to expected historical or projected future operating results; (ii) changes in the manner of use of the assets or the strategy for our overall business; (iii) negative industry or economic trends; (iv) our enterprise fair value relative to net book value.

Our impairment evaluation of identifiable intangible assets and P&E includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over the remaining estimated useful lives, we record an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued. Major factors that influence our cash flow analysis are our estimates for future revenue and expenses associated with the use of the asset. Different estimates could have a significant impact on the results of our evaluation. If, as a result of our analysis, we determine that our amortizable intangible assets or other long-lived assets have been impaired, we will recognize an impairment loss in the period in which the impairment is determined. Any such impairment charge could be significant and could have a material negative effect on our results of operations.

Share-based Compensation

We applied ASC 718, Compensation - Stock Compensation (formerly SFAS No. 123R, Share-Based Payment). ASC 718 requires that all share-based compensation be recognized as an expense in the consolidated financial statements and that such cost be measured at the fair value of the award and requires compensation cost to reflect estimated forfeitures. The determination of the fair value of share-based compensation awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including our expected stock price volatility over the term of the awards, actual and projected share option exercise behaviors, risk-free interest rate and expected dividends. The volatility of the Company’s common stock was estimated by management based on the historical volatility of our common stock, the risk free interest rate was based on Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the expected life of the share option, the expected dividend yield was based on the Company's current and expected dividend policy, and the projected share option exercise behaviors is based on one-half of the sum of the vesting period and the contractual life of each share option. This is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date.

Any uncertainty associated with these assumptions may impact our consolidated financial statements might affect our valuation when the options are granted.

Inventories

Inventories are stated at the lower of cost or market, using the weighted average method. Raw materials consist primarily of materials used in production. Finished goods consist primarily of equipment used in product sales and system contracting projects. The costs of finished goods include direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling costs are also included in the cost of inventory. The Company reviews its inventory periodically to determine if any reserves are necessary for potential obsolescence.

Costs and estimated earnings in excess of billings

The current asset, "Costs and estimated earnings in excess of billings" on contracts, represents revenues recognized in excess of amounts billed.

Billings in excess of costs and estimated earnings

The current liability, "Billings in excess of costs and estimated earnings" on contracts, represents billings in excess of revenues recognized.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a 5% residual value.

Recently issued accounting pronouncements

In January 2010, FASB issued ASU No. 2010-01- "Accounting for Distributions to Shareholders with Components of Stock and Cash." The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – "Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification." The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – "Improving Disclosures about Fair Value Measurements." This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, "Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements," or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, "Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades," or ASU 2010-13. This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update 2010-17, "Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition" or ASU 2010-17. This Update provides guidance on the recognition of revenue under the milestone method, which allows a vendor to adopt an accounting policy to recognize all of the arrangement consideration that is contingent on the achievement of a substantive milestone (milestone consideration) in the period the milestone is achieved. The pronouncement is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In July 2010, FASB issued Accounting Standard Update 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" or ASU 2010-20. This Update provides enhanced disclosures which are designed to assist financial statement users in assessing an entity's credit risk exposure and in evaluating the adequacy of an entity's allowance for credit losses. Public entities must apply the disclosure requirements applicable to period-end balances beginning with the first interim or annual reporting period ending on or after December 15, 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements

In September 2010, FASB issued Accounting Standard Update 2010-25, "Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans" or ASU 2010-25. The ASU clarifies how loans to participants should be classified and measured by defined contribution plans and how IFRS compare to these provisions. The amendments in this update are effective for fiscal years ending after December 15 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued Accounting Standard Update 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU modified Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. For public entities, the amendments in the ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued Accounting Standard Update 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU specifies that, if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 is effective prospectively for business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Adoption of this ASU did not have material impact on the Company's consolidated financial statements.

Results of Operations

Comparison of the Years Ended December 31, 2010 and 2009:

	For the Year Ended December 31,									
	2010			2009			Y/Y Change			
	Amount ($)	% of Total Revenue		Amount ($)	% of Total Revenue		Amount ($)	%		
Revenue										
System contracting projects	59,544,090	74.5	%	62,514,475	77.0	%	-2,970,385	-4.8	%	
Products	16,834,582	21.0	%	15,718,815	19.4	%	1,115,767	7.1	%	
Maintenance Services	3,598,010	4.5	%	2,947,908	3.6	%	650,102	22.1	%	
Total Revenue	79,976,682	100.0	%	81,181,198	100.0	%	-1,204,516	-1.5	%	

Total revenues were approximately $80.0 million for the year ended December 31, 2010 as compared to approximately $81.2 million for the year ended December 31, 2009, a decrease of approximately $1.2 million or 1.5%. This slight decrease in our total revenue was primarily due to the decrease in our revenues from system contracting projects, offset by the increase in our product sales and sales from our maintenance services during the period. The Company recognized revenues from 436 total solution, product sales and maintenance contracts for the year ended December 31, 2010 as compared to 445 contracts for the year ended December 31, 2009.

Revenues from our total solution system contracting projects decreased by 4.8% to $59.5 million derived from 220 contracts for the year ended December 31, 2010, compared to $62.5 million derived from 181 contracts for the year ended December 31, 2009. This decrease in revenues from our system contracting projects was mainly attributable to the slower progress in the projects from the iron and steel industry during period, as iron and steel industry has experienced significant weakness during recent quarters. Revenues from our product sales were $16.8 million with 152 contracts executed for the year ended December 31, 2010, compared to $15.7 million with 136 contracts executed for the year ended December 31, 2009. The increase in revenues from product sales was mainly due to the increase in value of product sales contracts executed in power generation industry during the period. Revenues from maintenance service increased by 22.1% to $3.6 million derived from 64 contracts for the year ended December 31, 2010, compared to $2.9 million derived from 128 contracts for the year ended December 31, 2009. The increase in revenues from maintenance service was mainly attributable to the increase in the number of maintenance service contracts executed as a result of the expansion of our customer base during the period.

In particular, our three largest clients were Wuhan Iron & Steel Group, Capital Iron & Steel Group (Caofeidian Project), Anshan Iron & Steel Group Chaoyang Company, which collectively contributed approximately $40.2 million of revenues, representing 67.4% of total revenues for the year ended December 31, 2010.

Out of the system contracting revenue of $59.5 million for the year ended December 31, 2010, iron and steel industry contributed the majority of revenues, approximately 55.7 million or 93.3% of the revenue from system contracting projects, while traditional power generation contributed approximately $3.5 million or 5.9%. Petrochemical, nuclear and other verticals together represented the remaining $0.48 million or 0.8% of revenue.

For the twelve months ended December 31, 2010, the significant increase in reliance on one client for the Company's operating results was due to the size of the total solution contract executed with Wuhan Iron and Steel. The value of this contract was approximately $92 million, compared to the company's historical average of $1 million for the iron and steel industry. Therefore, with the successful implementation of this project, for the twelve months ended December 31, 2010, Wuhan Iron and Steel contributed the largest portion of the Company's sales of any client. By the end of year 2010, the $92 million contract with Wuhan Iron and Steel will only be 36.9%

complete; as a result, the Company expects that a large portion of its revenue in future reporting periods will rely on the execution of this contract.

	For the Year Ended December 31,					
	2010		2009		Y/Y Change	
	Amount ($)	% of Revenue	Amount ($)	% of Revenue	Amount ($)	%
Cost of Revenues						
System contracting projects	28,897,445	48.5 %	26,769,508	42.8 %	2,127,937	7.9 %
Products	7,342,962	43.6 %	5,589,310	35.6 %	1,753,652	31.4 %
Maintenance Services	2,457,833	68.3 %	1,769,104	60.0 %	688,729	38.9 %
Total Cost of Revenues	38,698,240	48.4 %	34,127,922	42.0 %	4,570,318	13.4 %
Gross Profit						
System contracting projects	30,646,645	51.5 %	35,744,967	57.2 %	-5,098,322	-14.3 %
Products	9,491,620	56.4 %	10,129,505	64.4 %	-637,885	-6.3 %
Maintenance Services	1,140,177	31.7 %	1,178,804	40.0 %	-38,627	-3.3 %
Total Gross Profit	41,278,442	51.6 %	47,053,276	58.0 %	-5,774,834	-12.3 %

Cost of revenues for the year ended December 31, 2010 was approximately $38.7 million, as compared to $34.1 million for the year ended December 31, 2009, representing an increase of approximately $4.6 million or 13.4%. The increase in our cost of revenues was mainly driven by the increase in our material costs and our subcontractor costs related to the execution of total solution and maintenance contracts, offset by the decrease in revenues from our system contracting projects during the period. Gross profit for the year ended December 31, 2010 was approximately $41.3 million, as compared to $47.1 million for the year ended December 31, 2009, a decrease of approximately $5.8 million or 12.1%. Gross margin for the year ended December 31, 2010 was 51.6%, which is lower than the gross margin of 58.0% for the year ended December 31, 2009. The decrease in overall gross margin was mainly due to the decrease in the gross margin of system contracting projects and the gross margin of product sales during the period.

Gross margin of system contracting projects was 51.5% for the year ended December 31, 2010, compared to 57.2% for the year ended December 31, 2009. The decrease in gross margin of system contracting projects was mainly attributable to the contract mix during the period, as the gross margin of system contracting projects represents the average value of the gross margins of different system contracting projects executed in during the period. Since our gross margins during each quarter are determined by the revenue-weighted average of gross margins which are comprised of the gross margins of different system contracting projects executed during the period, the decrease in our gross margins of our system contracting projects was primarily due to the different contract mix during the twelve months ended December 31, 2010. In a given period, if more revenues are recognized from contracts with higher gross margins, this will result in a higher gross margin for the period. During the twelve months ended December 31, 2010, the iron and steel industry contributed higher percentage revenues as compared to the twelve months ended December 31, 2009. The increase in the percentage of revenue contribution from the iron and steel industry should have resulted in higher gross margins during the period. However during the twelve months ended December 31, 2010, the revenue-weighted average of gross margins from the iron and steel industry was only 54.8%, which was lower than the 60.0% for the same period of 2009. The decrease in average gross margin of total solution projects from the iron and steel industry outweighed the increase in the percentage of revenue contribution from the iron and steel industry, which led to a decrease in the overall gross margin of our system contracting projects during the period. We attributed the decrease in the average project gross margins from the iron and steel industry during the twelve months ended December 31, 2010 to the different contract mix during the period as the gross margin of individual iron and steel contracts during certain period is determined by various factors including the complexity of project itself, competition during the bidding process as well as the variation in the project's gross margins due to the change from clients' requirement. However, from the aspect of overall iron and steel contracts, the gross margins of iron and steel contracts were maintained at similar levels to those of last year. Furthermore, we did not observe any trends or factors which could negatively impact gross margins from the iron and steel industry in the long run.

The gross margin of product sales was 56.4% for the year ended December 31, 2010, compared to 64.4% for the year ended December 31, 2009. The decrease in the gross margin of product sales was mainly attributable to a lower percentage of self-manufactured proprietary products sold through our product sales contracts during the period, contributing to lower gross margin. Of the products sales in the year ended December 31, 2010, the percentage of self-manufactured proprietary products decreased to 37.8%, compared to 53.4% in fiscal year 2009. The main reason for the shift in sales from self-manufactured products to third-party manufactured products is the percentage of product sales from the petrochemical industry increased significantly to 26.7% in the twelve months ended December 31, 2010, compared to 6.9 % for the same period of last year. Since product sales contracts from the petrochemical industry typically use less self-manufactured proprietary products than those in other industries, the higher sales contribution from the petrochemical industry resulted into a lower percentage of self-manufactured proprietary products during the period. Gross margin of our maintenance services was 31.7% for the year ended December 31, 2010, compared to 40.0% for the year ended December 31, 2009. This decrease in the gross margin of our maintenance services was primarily due to the increase in our labor costs associated with the maintenance contracts during the period.

	For the Year Ended December 31,									
	2010			2009			Y/Y Change			
	Amount ($)	% of Total Revenue		Amount ($)	% of Total Revenue		Amount ($)	%		
Operating Expenses										
Selling Expense	10,135,884	12.7	%	8,908,697	11.0	%	1,227,187	13.8	%	
General Administrative	10,822,596	13.5	%	8,154,801	10.0	%	2,667,795	32.7	%	
Depreciation and Amortization	851,036	1.1	%	773,907	1.0	%	77,129	10.0	%	
R&D	1,966,557	2.5	%	1,631,435	2.0	%	335,122	20.5	%	
Total Operating Expenses	23,776,073	29.7	%	19,468,840	24.0	%	4,307,233	22.1	%	
Income From Operations	17,502,369	21.9	%	27,584,436	34.0	%	-10,082,067	-36.5	%	

Operating expenses were approximately $23.8 million for the year ended December 31, 2010 as compared to approximately $19.5 million for the year ended December 31, 2009, an increase of approximately $4.3 million or 22.1%. This increase in operating expenses was mainly attributable to the slight increase in selling, general administrative and R&D expenses during the period.

Selling expenses were approximately $10.1 million for the year ended December 31, 2010 as compared to approximately $8.9 million for the year ended December 31, 2009, an increase of approximately $1.2 million or 13.8%. The increase in selling expenses was mainly attributable to the increase in sales-related activities in the iron and steel, power generation and chemical industries and efforts to expand into new industries including nuclear power, transportation and international markets. General administrative expenses were approximately $10.8 million for the year ended December 31, 2010, as compared to approximately $8.2 million for the year ended December 31, 2009, an increase of approximately $2.7 million or 32.7%. The significant increase in general administrative expenses was mainly attributable to increases in the number of total employees, every employee salary and the compensation related to the issued options and restricted stocks during the period. Depreciation and amortization expenses were approximately $0.9 million for the year ended December 31, 2010 as compared to approximately $0.8 million for the year ended December 31, 2009, an increase of $77,129 or 10.0%. The slight increase in depreciation and amortization expenses was mainly due to the increase in our plant and equipment related to business operations. R&D expenses were approximately $2.0 million for the year ended December 31, 2010 as compared to approximately $1.6 million for the year ended December 31, 2009, an increase of approximately $0.3 million or 20.5%. The increase in R&D expenses was mainly attributable to the variance in expenditures required in different new product development cycles.

Operating income was approximately $17.5 million for the year ended December 31, 2010 as compared to approximately $27.6 million for the year ended December 31, 2009, a decrease of approximately $10.1 million or -36.5%. The decrease in our operating income was mainly attributable to the decrease in revenues and lower gross margins during this period.

Total other income was approximately $1.1 million for the year ended December 31, 2010 as compared to approximately $0.9 million for the year ended December 31, 2009, an increase of $119,912 million or 12.7%.

Income before income tax was approximately $18.6 million for the year ended December 31, 2010 as compared to approximately $28.5 million for the year ended December 31, 2009, a decrease of $10.0 million or -34.9%. The reason for the decrease in income before income tax was mainly due to the decrease in revenues and operating margin during the period. Provision for income tax was approximately $3.2 million for the year ended December 31, 2010 with an effective tax rate of approximately 17.3%, as compared to a $4.2 million provision for income tax for the year ended 31, December 2009, a decrease of $0.9 million. The decrease in provision for income tax was mainly due to a decrease in income before income tax during the period.

Our net income was approximately $15.4 million for the year ended December 31, 2010 as compared to approximately $24.3 million net income for the year ended December 31, 2009, a decrease of $9.0 million or -36.8%. The reason for this decrease in net income was mainly due to the decrease in revenue as well as decrease in gross margin during the period.

Currency translation adjustments resulting from RMB appreciation amounted to $4.0 million and $19,093 for the years ended December 31, 2010 and 2009, respectively.

The comprehensive income, which adds the currency adjustment to the net income, was approximately $19.5 million for the year ended December 31, 2010 as compared to approximately $24.4 million comprehensive income for the year ended December 31, 2009, a decrease of $5.0 million or 20.3%.

Comparison of the Years Ended December 31, 2009 and 2008:

	For the Year Ended December 31,					
	2009		2008		Y/Y Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	%
Revenue						
System contracting projects	62,514,475	77.0%	57,101,984	82.7%	5,412,491	9.5%
Products	15,718,815	19.4%	9,673,922	14.0%	6,044,893	62.5%
Maintenance Services	2,947,908	3.6%	2,303,213	3.3%	644,695	28.0%
Total Revenue	81,181,198	100.0%	69,079,119	100.0%	12,102,079	17.5%

Total revenues were approximately $81.2 million for the year ended December 31, 2009 as compared to approximately $69.1 million for the year ended December 31, 2008, an increase of approximately $12.1 million or 17.5%. This increase was primarily due to the increase in revenues from product sales and maintenance services during the period. The Company recognized revenues from 445 total solution, product sales and maintenance contracts for the year ended December 31, 2009 as compared to 319 contracts for the year ended December 31, 2008.

Revenues from total solution system contracting projects increased by 9.5% to $62.5 million derived from 181 contracts for the year ended December 31, 2009, compared to $57.1 million derived from 161 contracts for the year ended December 31, 2008. This increase in revenues from system contracting projects was mainly attributable to the increase in the number of system contracting projects we executed and the successful execution of large-size projects such as the Caofeidian Project of Capital Iron and Steel Group during the fiscal year. Revenues from product sales were $15.7 million with 136 contracts executed for the year ended December 31, 2009, compared to $9.7 million with 115 contracts executed for the year ended December 31, 2008. The increase in revenues from product sales was mainly due to the increase in value of product sales contracts executed in the power generation industry. Revenues from maintenance service increased by 28.0% to $2.9 million derived from 128 contracts for the year ended December 31, 2009, compared to $2.3 million derived from 43 contracts for the year ended December 31, 2008. The increase in revenues from maintenance service was mainly attributable to the increase in the number of maintenance service contracts executed as the result of the expansion of our customer base during the period.

In particular, our three largest clients were Capital Iron and Steel Group, Jiannan Iron and Steel Group and Capital Engineering & Research Inc., which collectively contributed approximately $18.9 million of revenues, representing 23.2% of total revenues for the year ended December 31, 2009.

Out of the system contracting revenue of $62.5 million for the year ended December 31, 2009, iron and steel industry was the major industry, contributing approximately $53.9 million or approximately 86.3% of the revenue from system contracting projects, while traditional power generation contributed approximately $6.7 million or approximately 10.6%. Petrochemical, nuclear and other verticals together represented the remaining $1.9 million or 3.1% of revenue.

For the year ended December 31, 2009, the significant increase in reliance on one client for the Company’s operating results was due to the size of the total solution contract executed with Capital Iron and Steel Group. The value of this contract was approximately $31 million, compared to the company’s historical average of $1 million for the iron and steel industry. Therefore, with the successful implementation of this project, for the year ended December 31, 2009, Capital Iron and Steel Group contributed the largest portion of the Company’s sales of any client. By the end of year 2009, the $31 million contract with Capital Iron and Steel Group will only be 80.2% complete; as a result, the Company expects that a large portion of its revenue in future reporting periods will rely on the execution of this contract.