

CHINA FIRE & SECURITY GROUP, INC.
Form 10-K/A
November 02, 2009

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

AMENDMENT NO. 2 TO
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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
(State of incorporation)

65-1193022
(I.R.S. Employer Identification No.)

B-2508 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
(Title of Class)

The Nasdaq Capital Market, LLC
(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

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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

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 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 Non-accelerated filer Smaller reporting
(Do not check if a 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

The aggregate market value of the 12,170,527 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was \$ 97,607,627 as of June 30, 2008, 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 \$8.02 per share, as reported by The NASDAQ Stock Market, Inc.

As of March 13, 2009, there were 27,586,593 shares of common stock of China Fire & Security Group, Inc. outstanding.

EXPLANATORY NOTE

This Amendment No. 2 to our Annual Report on Form 10-K initially filed with the Securities and Exchange Commission (the "Commission") on March 16, 2009 is being filed to correct a typographical error on the date of the Report of Independent Registered Public Accounting Firm.

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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 fire safety market 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 for customers of our industrial fire safety systems. Our business is primarily in China, where we operate sales and liaison offices in more than 20 cities, but we are expanding our business overseas by providing integrated fire safety systems.

We market our industrial fire safety products and systems primarily to major companies in the iron and steel, power and petrochemical industries in China. In 2008, we also secured significant contracts with nuclear power plants. We are further developing our business in the transportation sector, including subways and highway tunnels. We plan to expand our marketing efforts to secure business in these industries.

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 which has successfully developed a comprehensive line of linear heat detectors.

We are 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 the 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. In 2008, we were also 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 products have been used by our customers in more than 20 provinces throughout China.

Our Strategy:

We plan to implement the following specific strategies to achieve our growth goals:

1) Strengthen and further develop our total solution business. We plan to continue to serve our current customers and gain additional market share, and capture business in new industries and international markets

As the leading brand in China's industrial fire protection industry, China Fire has a long list of mid-to-high end customers in various industrial verticals and specialty constructions. By fully utilizing the Company's brand name and influence in the marketplace, China Fire will adhere to and further develop its business model in providing total fire protection systems to our customers. As a result of the global financial downturn, China Fire's primary target industries, including iron and steel, power generation and, petrochemicals industries, have become the recipient of favorable recovery policies from the Chinese government. China Fire will continue to gain growth opportunities provided by the government's support for consolidation and technical upgrades in these industries.

China will issue a major amendment to the national fire law on May 1, 2009. The new fire law will stipulate higher requirements for fire safety technologies and products. China Fire will focus on serving the new industrial build-outs, rebuild and upgrades, and maintenance projects to solidify its existing customer base and to further enhance its competitive position in the market. The Company will expand into other sectors by promoting its new technologies and products and strengthening synergistic cooperation in the marketplace. The Company will also pursue business opportunities in select international markets.

2) Strengthen technological innovation and intellectual property protection and influence the enhancement of new product standards and fire codes

China Fire continues to invest in technological innovation and will deliver new products with leading technologies and strong potential market demand. The Company will increase its focus the registration of intellectual property rights and increase its efforts crackdown on infringing products. China Fire will also continue to proactively participate in the development of various industry standards and code enhancements in light of its leading fire safety technologies. The Company plans to continue to gain additional market share as a result of its superior product offering and competitive pricing.

3) Continue to selectively explore strategic M&A targets to enhance our competitive advantages and financial results

To supplement its organic growth and strengthen its leadership position in the industry, China Fire expects to grow through mergers and acquisitions. We will be very selective and value business synergies by acquiring fire protection companies with strong market presence in certain industrial verticals, companies with strong marketing channels and companies that possess recurring maintenance services business. All acquisitions will be accretive to earnings.

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, as well as, unique fire hazard risks associated with various areas of production. Designers must also contend with adverse environmental problems such as humidity, 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 a rapid growth in its manufacturing capacity. Moreover, due to its investment environment and cheap labor, China has attracted many manufacturers from developed countries. The increasing industrial capacity of China has caused, and is anticipated to continue to cause, a high level of demand for industrial fire safety products and services. According to a study published by China's Building Mechanical & Electrical Engineering Magazine, China's total revenues from industrial fire safety products and services in 2006 was approximately \$1 billion and the annual growth rate for the following five years was expected to be more than 11%.

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. These laws, while expressing the government's increased emphasis on fire safety, can be vague and are not 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 1st, 2008. This fire code is applicable to all new build-out of plants, expansion and renovation of existing facilities in any iron and steel company.

The products used by the fire safety industry have historically been 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 so that major players can 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:

- 1 A long list 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 on 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 has been serving a long list of mid-to-high end loyal customers in various industries including iron and steel, petrochemical, power, nuclear power, and transportation. We have been receiving repeat business from these customers when they build new projects or rebuild their existing plants.

- 1 Technology leadership with several high valued proprietary intellectual properties.

China Fire has developed a series of proprietary technologies for industrial fire safety products including Linear Heat Detectors (LHD) 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.

- 1 Lead and influence the enhancement of various national fire codes and product standards.

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

- 1 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 high-tech enterprise, China Fire has ample manufacturing capacity to support its future business growth in specialized fire detection and suppression products.

- 1 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 as well as general management. The core team has both domestic experience and international vision with strong track record for achieving sustained business and financial growth over the last 5 years.

Our Products and Services

Our major customers are in the iron and steel (contributing approximately 81% of revenues), traditional power generation (contributing approximately 9% of revenues) and petrochemical (contributing approximately 4% of revenues) industries. Our revenues are mainly from three sources: Total Solutions, Product Sales, and Maintenance Services. In 2008, revenues from total solutions accounted for approximately 83% of total revenues and the sale of products integrated by us accounted for approximately 14% of total revenues, while maintenance services accounted for approximately 3% 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 \$32 million. In 2008, we designed and installed more than 177 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 2008, 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 2008

Name	Industry	Amount of Revenues (\$1,000)	Percentage of Total Solution Revenues
Capital Iron & Steel (Caofeidian Project)	Iron and Steel	17,570	30.8%
Anshan Iron & Steel (Bayuquan Project)	Iron and Steel	2,965	5.2%
Datang Power (Tashan Project)	Power	2,629	4.6%
Wuhan Iron & Steel (CSP Project)	Iron and Steel	2,468	4.3%
Xinyu Iron & Steel	Iron and Steel	2,102	3.7%
Total			48.6%

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, the design and installation of fire protection systems. We manufacture the following products, which can be divided into three categories according their functions:

- Fire Detectors. The products include:
 - Linear Heat Fire Detectors
 - Multi-Frequency Infrared Flame Detectors
 - Long Range Infrared Combustible Gas Detectors
 - Fixed Point Combustible Gas Detectors
 - Point Fire Detectors

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

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Fire Alarm Control Unit

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- 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