

China Fire & Security Group, Inc.
Second Quarter 2009 Earnings
August 10, 2009

Operator: Please stand by, we are about to begin. Good day and welcome to the China Fire & Security Group's second quarter 2009 earnings conference call. Please be aware that today's conference is being recorded. At this time I would like to turn the conference over to Mr. Michael Tieu of ICR. Please go ahead, sir.

Michael Tieu: Thank you everyone for joining us for the China Fire & Security Group's second quarter 2009 earnings call. With us today is Brian Lin, China Fire's Chief Executive Officer and Robert Yuan, China Fire's Principal Accounting Officer. Before we get started I am going to review the Safe Harbor statement regarding today's conference call.

This conference call may contain in addition to historical information, forward-looking statements within the meaning of the Federal Securities Laws regarding China Fire. Forward-looking statements including statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements other than statements that are historical in nature.

These forward-looking statements are based on current management's expectations and are subject to risks and uncertainties that may result in expectations not being realized and may cause actual outcomes to differ materially from expectations reflected in these forward-looking statements. Potential risks and uncertainties include product and service demand acceptance, changes in technology or economic conditions, the impact of competition and pricing, the impact of government regulations, and other risks contained in the statements filed from time-to-time with the SEC.

All such forward-looking statements, whether written or oral, and whether made by or on behalf of the company, are expressly qualified by the cautionary statements. Because forward-looking statements are subject to risks and uncertainties, we caution you not to place undue reliance on these statements. Forward-looking statements made during this conference call only represent management's estimates as of today, August 10, 2009. China Fire & Security Group assumes no obligation to update these projections in the future as market conditions could change. For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 360 days on our corporate website, www.chinafiresecurity.com.

At this point, I would like to turn—to introduce Brian Lin, Chief Executive Officer of China Fire & Security Group. Brian?

Brian Lin: Thank you very much, Michael. Good morning everyone to those in the U.S. and good evening to those participants in Asia. Welcome to our second quarter 2009 conference call. Today, we will discuss our financial results, talk about our recent developments and our strategic plans and conclude with our outlook for the remainder of 2009.

In our previous earnings call, we mentioned our excitement in the growth prospect in our core iron and steel market and that we would continue to expand our presence in other industrial verticals including nuclear, power, petrochemical and transportation industries. We are happy to share with you that in the second quarter of 2009, we have actively pursued our focus on expanding our market leadership and relationships with China's top iron and steel companies, as well as in other verticals, and have taken advantage of additional revenue opportunities created from the stimulus package, industrial consolidation and improving market conditions. We have persisted in growing our business and further strengthening our leader, leading position as the industrial fire protection solutions provider in China.

Before we get to the details of our second quarter 2009 financial results, allow me to share with you highlights of our achievements during this quarter as we continue to reach new records in our business.

Our revenue increased by 36.5% to US\$22.7 million compared to 16.7 million for the same period of 2008. We achieved record gross margin of 63.8%, which is 216 basis points higher than the gross margin of the second quarter 2008. Our net income increased 24.9% year-over-year to 8.3 million for the second quarter of 2009. Our backlog remained strong at 85 million.

We won two total solution contracts from Tongjing (sp?) Iron and Steel, together worth approximately US\$5.6 million. We signed a total solution contract with Wuhan Iron and Steel, a total value of approximately \$2.6 million. Three of our linear heat detectors were awarded UL certifications. As you can see from our many achievements, we are delighted with our second quarter performance. The Chinese government's stimulus plan and new loans have had a strong effect on domestic spending, which has resulted in increased manufacturing activity. Bidding activities with our tier-one customers continued to trend upwards, and we continued to benefit from the accelerated infrastructure upgrade across our targeted vertical.

Economists are also positive about China's recovery, as some believe that it has been recovering faster than the market had expected. According to the National Bureau of Statistics, the Chinese economy expanded at the annual rate of 7.9% in the second quarter of 2009. The official COAS (sp?) Managers Index also showed expansion in the second quarter. We believe we are well positioned to capture further revenue opportunities arising from these improving market conditions, as we continue to grow our company, expand our

market leadership and deepen our competitive advantages in a rapidly growing Chinese industrial fire protection industry. I am excited about the remainder of 2009, which I will discuss in more details later in this conference call. At this point, however, let me turn the call over to Robert, for a detailed discussion of our second quarter financial results. Afterwards, I will return to discuss our recent developments and our strategic plans and conclude with an update on our guidance for the remainder of 2009. Robert?

Robert Yuan: Thank you, Brian. I am also very pleased with our solid financial performance in the second quarter of 2009, as we once again solidly improved revenue (cross talking) our profit and maintained a strong balance sheet.

Our revenue for the second quarter of 2009 grew 36.5% to 22.7 million compared to 16.7 million for the second quarter of 2008. During the second quarter we generated revenue from 205 total solution, product sales, and maintenance contracts up from 177 contracts from second quarter of 2008. Systems contracting revenues increased 25.7% to US\$18.3 million, derived from 121 solution contracts, up from 14.6 million generated from 104 contracts in the second quarter of 2008. This increase in revenue 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 sized Iron and Steel projects from Capital Iron and Steel Group and Ming (sp?) Metal Corporation during the period.

Our product sales grew by 147.2% year-over-year to US\$3.8 million. Maintenance and service revenue increased 15.4% to 0.6 million driven by our efforts to keep expanding our customer base. As we continue to fulfill large contracts with our core customers the iron and the steel industry remain the largest verticals contributing approximately seven, 71.3% of total second quarter revenue. Power generation has become one of the largest verticals in the second quarter contributing approximately 19.4% of revenue. Petro-chemical and other verticals contribute approximately 9.3% of our revenue during the quarter.

Our second quarter gross margin expanded 260 basis points to 63.8% versus gross margin of 51.2% for the same period of 2008. The record high gross margin benefit from the higher use of our proprietary (sp?) products and our greater and deeper expertise as we significantly improved our efficiency in the execution of large iron and steel projects. Our selling expenses were US\$2.2 million for the second quarter of 2009, as compared to 1.8 million for the second quarter of 2008, an increase of approximately US\$0.4 million or 22.7%. The increase in our selling expenses was mainly attributable to the increase in our sales related activities in the iron and steel industry, power generation and chemistry industries and our effort to expand our business in new industries including nuclear power, transportation and international markets.

General and administrative expenses were US\$2.0 million for the second quarter of 2009 as compared to US\$1.0 million for the same period 2008, an increase of approximately 1.0 million or 102.8%, due to higher employee salary and compensation, and allowance for receivables. R&D expenses decreased slightly to US\$520,000 as compared to US\$628,000 in the same period of 2008.

Operating income for the second quarter grew 45.1% to US\$9.6 million from US\$6.6 million for the same period last year. Driven by an increase in revenue and the higher gross margin, our operating margin also expands 250 basis points to 42.1% from 39.6% a year ago. Total other income was US\$117,000 for the second quarter of 2009, compared to US\$88,000 for the same period 2008, as we lowered our other expenses.

Our provision for income taxes was approximately US\$1.4 million in the second quarter 2009, compared to approximately US\$11,000 provision for income tax for the same period last year. This significant increase in our provision for income tax was mainly due to the fact that Sureland (sp?) Industrial, our major operating subsidiary, began to pay 12.5% of the income tax rate starting from the first quarter of 2009 after the expiration of its tax-exemption period.

Our GAAP net income for the second quarter of 2009 grew 24.9% or US\$1.7 million to US\$8.3 million as compared to US\$8 million for the same period of 2008. As a result, our fully diluted GAAP EPS grew 24.4% to \$0.90 from \$0.24 a year ago. At end of the second quarter our total backlog, which includes winning bids, was US\$85 million reflecting our strong new contract wins during the quarter. Iron and steel industry were still the major verticals and contributed 65% of backlog at the end of the second quarter. Power generation industry and the nuclear power industry both contributed approximately 16% of current backlog. Petrochemical and other verticals together represented the remaining 3% of our backlog. We expect to convert a majority of the current backlog to revenue in the next 12 months.

Now I would like to turn your attention to our balance sheet and cash flows, because the balance sheet is a snapshot at the moment in time, I would like to address specifically only line items that have significantly changed or that I believe can have material impact to our ongoing operations.

During the second quarter we generated US\$0.4 (sp?) million cash from operations compared to US\$2.5 million during the first quarter 2009. In the second quarter, we also invested approximately US\$900,000 for cap ex and as a result net cash decreased by US\$1.6 million to US\$27.8 million from US\$29.4 million at the end of previous quarter. While our accounts receivables increased by 1.8 million to US\$ 28.3 million, our DSO's improved to 128 days versus 155 days in the previous quarter. Our inventory was relatively

flat at US\$6.3 million compared to US\$6.0 million at the end of the first quarter, 2009. Accordingly our working capital increased by approximately US\$5.5 million to US\$75.2 million up from US\$69.6 million as of March 31, 2009.

We currently have no bank loans or debt and as such our total shareholders equity increased to US\$93.1 million as of June 30, 2009, up by US\$8.7 million from the end of the first quarter 2009.

In summary, I'm very pleased with our strong financial performance during the second quarter of 2009. That concludes my financial review. So let me turn the call back to Brian for discussion on our recent developments and our strategic plan. Brian, please.

Brian Lin: Thank you, Robert. Let me now share with you our growth strategies and the specific macroeconomic trends that continue to validate our aim.

China's economy in general has seen a strong boost from the government's stimulus package and the recent data shows that the country is on track to achieve its targeted 8% growth this year, which is naturally great news for China Fire & Security. We remain focused on executing the strategies that we have outlined in five parts throughout 2009. It is therefore worth stating the strategies as we provide key developments in each of the five components.

Firstly, we will further expand our leading position and market share by focusing on our tier one customers in China's iron and steel industry, as we continue to offer our clients the best fire protection solutions currently available on the market. In the three months ended June 30, 2009 we won 94 new contracts and winnings bids in the new, in the iron and steel industry, worth approximately 18.9 million. The iron and steel industry has significantly recovered in the second quarter, with steel prices increasing weekly over the last 15 weeks. Many steel plants in fact have gone from focusing (sp?) large deficits to becoming fully profitable. Driven by this industry recovery and the government's stimulus plans, bidding activities with our tier one customers continue to trend up. Our existing deep relationships continued to drive our winning the lion's share of these opportunities, demonstrated by our major wins with Tongjing (sp?) Iron and Steel.

In September, the Chinese government will put into action its iron and steel industry merger and acquisition plan, first announced in March, wherein the industry will be further centralized, creating five major giant, steel giants in China that will likely account for up to 45% of the nation's steel production capacity. We are pleased to say that three of these giants are already our existing customers, and we should therefore profit from their increased size and need for our product.

Secondly, we remain focused on diversifying our revenue stream and customer base by expanding into other verticals. We are very pleased with our record growth in the power generation verticals as we won 25 contracts totaling 3.7 million in the second quarter of 2009. We believe that China Fire will directly benefit from China's 55 billion investment on new power generating capacity this year, as power producers will require our advanced code compliant fire protection solutions.

The petrochemical vertical remains solid. Though our contract wins in this vertical was a modest US\$700,000 during this quarter, we continue to experience robust sales activities. According to the National Energy Administration's three-year energy blueprint the government will invest almost 15 billion to build and upgrade oil refineries over the next year and a half. 20 large oil-refining bases with a capacity of up to 10 million tones and 11 ethylene production bases will be built in China and we anticipate considerable growth opportunities for our advanced fire protection solutions in the petrochemical industry. In addition, the Ministry of Transportation has announced that an estimated 150 billion will be spent on fixed assets and over 700 billion will be invested on traffic transportation projects, including 120 billion for the construction of new high railways across mega cities in China. This significant infrastructure investment also creates opportunities for China Fire to enter new major markets.

Thirdly, we are actively working with a few select high-end customers to provide retrofitting systems for their existing plants and provide fire protection maintenance safety services for their facilities. As we mentioned during last quarter's conference call, the Chinese government issued a major amendment of the Fire Protection Law on May 1st, 2009, requiring all fire protection products to comply with the national standard and to pass the compulsory product specification by qualified specification institutions. This new fire protection law combined with fire standards improvement in various industries has create—increased the importance of fire safety among the public and accordingly will create long term higher demand for better fire protection products and services.

We have been actively working with a few high-end customers to provide overall retrofitting solutions and services for all their existing plants and facilities to be in compliance with new fire codes in their respective industries. Our customers also prefer our total solution approach, which provides overall planning of retrofitting of most existing plants, as well as our higher economies of sale, which we can pass the cost-savings from sharing of resources directly to our customers.

Subsequent to our retrofitting project, we also provide comprehensive maintenance safety services to our customers. Currently each of our customers may have dozens of maintenance service providers for different

plants and facilities and consequently, quality of service can vary greatly from one service provider to another, whereas our competitive comprehensive, network based monitoring system, we can provide our customers with a single point of access that can consolidate all fire related information from each and all of our customers' entire operation. With internet ubiquity, our customer can access key safety information and monitor operations from anywhere and at any time.

Fourthly, we will continue to invest in technology innovations and influence the development of new fire standards and code enhancements. We believe the stricter fire protection law mentioned earlier will accelerate demand for advanced fire safety products and services and thus drive more demand for our innovative and industry leading solutions. Moreover, we believe that our close participation in develop, developing new standards and code enhancements will continue to elevate our brand and enhances our competitive position.

Currently we own 76 patents and have 37 patents pending in China and internationally. We believe these patented proprietary products will strongly support our future business growth in China and enhance our ability to maintain healthy margins. Most notably, three of our linear heat detectors recently received UL certification which is vital to capturing international market share and entering into new industry markets.

In June, we founded a total electric product center, in order to improve our in-house core technology. Currently, the photoelectric product center is developing several new, innovative fire detection products, which are targeted to be released before the end of the year. These new products include our next generation Tri-Band Infrared Flame Detector and next generation Infrared Combustible Gas Detector and Fiber-Optic-Based Linear Heat Detectors.

The Fiber-Optic Linear Heat Detectors are being used in environments with extreme temperatures and flame hazards, for example, large oil storage tanks of petrochemical industries and highway tunnels in transportation industry. Going forward, we believe this sensor will help us keep the competitive advantages of our existing product line, such as reliability, quality, cost-effectiveness and added value of the intellectual property rights. We are confident that this sensor will have an invaluable role in advancing our market performance and brand value.

In addition, as part of the company's efforts to drive innovation and strengthening of our R&D capabilities, we established a fire control safety research institute, together with Wuhan University of Science and Technology or WUST which is one of the top universities in the country, both metallurgical and mining engineering. The university has advanced research

capabilities and long-term relationships with major Chinese iron and steel companies and we expect to greatly benefit from this cooperatively (sp?) established research institute. China Fire has been providing scholarships and funding for WUST's scientific research facilities and laboratories for many years, and the Fire Research Institute aims to further strengthen the cooperation by jointly developing fire safety products, leveraging the CFSG's built-in expertise in the fire safety industry and WUST's advanced research capabilities.

Fifthly, we will actively pursue fire protection projects and product sales in the international market. We continue to actively bid in projects in international markets and we anticipate considerable growth opportunities for advanced fire protection solutions and products in emerging economies like India and Indonesia. According to a report issued by Price Waterhouse Coopers, the Indian government will spend over US\$500 billion in constructing new infrastructure projects, creating ample opportunities for China Fire and Security.

Last but not least, we will continue to proactively explore strategic merger and acquisition targets. This quarter, our subsidiary, Sureland, established a joint venture company with XinyangTsongGda (sp?) called XinyangTsongGda Electric Limited. This joint venture company will be dedicated to manufacturing and distributing mid to low end linear heat detectors which are more effective in battling counterfeit products. The joint venture's customers will not overlap with Sureland's current ones.

With firm discipline we expect all our M&A transactions will be accretive to our earnings and complementary to our core fire protection business. We believe that our strong balance sheet enables us to target good companies that have strong market presence in certain industrial verticals, or have strong marketing channels, or companies with recurring maintenance services revenues. We intend to leverage our brand, our technical expertise and our broad distribution to drive synergistic revenue opportunities.

Finally, while we are focused on executing our growth strategies, we are also optimizing our balance sheet and maximizing cash flows. We will continue to adopt tighter credit controls, implement more proactive receivable collection policies to reduce DSO and to increase the cash collected in the future.

We continue to be excited with the growth prospects in our core iron and steel market and we continue to command firm pricing for our total solutions as our gross margin continues to exceed our target range. We are, we also are excited with our contract wins in the nuclear power, petrochemical and transportation verticals as well as in the international market. We are actively working with a few select high end customers to provide retrofitting systems for all their existing plants and provide fire protection maintenance

safety services for all their facilities. We intend to sustain our current momentum and believe that our technical strength and leading market position will enable us to see more growth opportunities from the rebounding macro economy and industrial revitalization and consolidation plans.

In light of our strong profit margins in the first half of 2009, while we are reaffirming our revenue guidance of 88 million to 95 million for the full year 2009, we are raising our EPS to \$1.00 to \$1.05 compared to our previous earning target range of \$0.93 to \$1.00 per fully diluted share based on 28.3 million shares. Net income is estimated to grow to a range of 28 million to 29.7 million. We are keeping our 2009 effective tax rate assumption of 13.5% as compared to our effective tax rate of 2008 of 0.2%.

In closing, we are confident about our strategy and our technical expertise in fire safety as we continue to grow our leading brand, distribution, customer base, total solution offering, and competitive advantages in the rapidly growing Chinese industrial fire protection industry. I am excited about the remainder of 2009. We are confident that our growing cash position, healthy cash flows, and zero debt positions us well for higher revenues, greater profits and a stronger pipeline of expansion prospects including additional international growth markets and strategic consolidation opportunities.

This concludes my prepared remarks for the second quarter of 2009. Operator, we will now open the call for questions. Please begin with the first question.

Operator: To ask a question at this time, please press the star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one if you'd like to ask a question. We'll pause for a moment to assemble our roster.

Again, star one for questions, we'll go first to John Ma with Roth Capital Partners.

John Ma: Good evening Brian and Robert.

Brian Lin: Hi John.

Robert Yuan: Hi John.

John Ma: Hi. A few questions: number one, we've seen as you've said, we've seen in the steel industry price going up, production also has gone up, so my, I'm just curious on the, these building activities from your tier-one customers. Are we seeing they're putting out more good (sp?) projects for

bidding or are we going to see your good contract win in the second half of the year?

Brian Lin: John, I think you are right that many iron and steel companies are becoming profitable and with the Chinese stimulus package, with a lot of bank loan support, I think they are in the position to expand their capacity right now. We have seen very good activities in the first half of the year and we believe the second qu—we will see better opportunities in the second half of the year.

John Ma: Okay, well, the next question comes to your gross margin; we've seen your gross margin is almost at a historical high level and in the past you guys been talking about 45 to 55% of gross margin as the target range. How sustainable are these gross margin level going forward, and what can change the dynamics?

Brian Lin: I think we have been advising the investors that our gross margin will be in the range of 45% or 55%. That's based on our balanced revenue recognitions from different industries, and just in the last couple of quarters, the revenue recognition from, of some large iron and steel companies contributing to a large percentage of our revenues and that's why our profit, gross margins are higher than the higher end that we have been advising our investors, but we are now, going forward, we have more diversified revenue streams from different industries, I think we are, we should be still in the 45% to 55% range.

John Ma: Okay. Now you mentioned the retrofitting system for existing clients and also the maintenance safety service for all their facility, now, are we going to see the maintenance service or recurring revenue gaining more importance of your total revenue mix? You know, right now, it is under 3% of total revenue.

Brian Lin: Hmm, John, on this topic I think we have—there are two aspects of our new, kind of new strategic plans. We are working with a few select high end customers in first retrofitting their existing plants. At least in this respect we are providing fire protection systems going to replace the existing systems that either are not really working properly or they are not in compliance with the new fire codes for the iron and steel industry, so those are like total solution projects.

And secondly is after these retrofitting projects are complete, then we are able to provide very comprehensive fire maintenance services for the entire group and so that, that's the recurring maintenance services revenue aspect. So there are two aspects to our strategic plans.

John Ma: Now what is the heart (sp?) of, to answer the recurring revenue because you just mentioned your existing customers use say a dozen service providers and, so—

Brian Lin: On the percentage-wise John, it's not going to be very significant, because for each group we're looking at, I think right now the customer paying about between \$5 to \$10 million for their maintenance services a year, and so on the total revenue, we are looking at \$90 million in revenue so \$5 to \$10 million won't be a significant portion of our revenue. However, that's already for each project season (sp?) we signed contract with one top-tier customer, and now we doubled our maintenance service revenues but just on the percentage-wise is not going to be very, like a very significant portion.

John Ma: Oh, you know you mentioned your new product like Tri-band Infrared Flame Detector, Combustible Gas Detector, now are you going to use that more for your product sale or you in—or they will be mainly used for your total solution?

Brian Lin: They will be mainly for our total solution projects as we get into newer start (sp?) industrial verticals, like petrochemical, like transportation these Infrared Flame Detectors and Combustible (sp?) Gas Detectors are widely used. We are, we will be using these new next generation products in our future product total solution sales.

John Ma: Oh, my last question is just trying to understand why your cost is exceeding (sp?) billing jumped from like 23 million last quarter now to 29 million. Can you explain a little bit more?

Brian Lin: I will ask Robert to help you understand that, but basically it is the difference is because of the timing of the billing to our customers.

Robert Yuan: Right, John, I think yes, Brian is correct, you know the major reason is about the timing when we bill the client and also so the timing difference makes this account a little bit higher during this, in this season.

John Ma: Okay, meaning some of these—.

Brian Lin: This is the timing difference between when we recognize revenue and the time we bill our customers. Before we bill to the customers, this goes into the billing in excess (sp?) of cost.

John Ma: Okay. You answered my question. Thanks.

Brian Lin: Yes.

Operator: And we'll go next to Adele Mao with Susquehanna International Group.

Adele Mao: Hi, guys. First I'd like to dig a little bit more into your gross margin. I understand that your long-term target is to keep gross margins at range of 45 to 55%. It seems that you had two quarters of impressive gross margin above 60%. I was just wondering what is your gross margin assumption that you have factored into your current guidance?

Brian Lin: Okay, the current guidance I think we are assuming about 55%, yes, still around, between like 45 to 55, that's towards the high end of the gross margin.

Adele Mao: Okay, so the 55%, is that for the year 2009 or it's for the next several, couple quarters?

Brian Lin: 55% that's the average that we used for 2009.

Adele Mao: Okay, I guess if you could you know help me understand, what's the percentage revenue I guess you need to generate from iron and steel industry for us to be pleasantly surprised again by your gross margin above 50%? I'm just trying to see where the threshold is.

Brian Lin: No, we never done exercises like this. We are, as you know the, our revenues recognition is based on percentage of completion. We are now trying to maintain it the gross margin range, we estimate that based on historical numbers the gross margins should be in that 45 to 65% range assuming that we have fair mix of revenues from iron and steel, power and petrochemicals, but in the last two quarters, the power, the iron and steel projects contributes very high percentage of the revenues, and especially some projects are very profitable high margin and large, larger projects where a lot of our products are used. So it's very hard to really be sh, be certain that certain gross margin numbers is, can be maintained.

Robert Yuan: Right and hi Adele, and also the gross margins guidance that we provided, 45 to 55% I think it to me is more like long-term gross margins. So at the moment I think the iron and steel weighting in our revenue will be lower than the current level; remember this quarter, iron and steel is still the major sales contributor, you know sales contributing vertical that's representing about 70 of that, so and also, for the iron and steel alone, itself, you know the gross margin for certain projects within the iron and steel industry could be varied (sp?) a lot as well.

Some large contracts can bring us maybe a higher gross margin, maybe some smaller one give us a lower gross margin, but on a average, iron and steel industry brings us higher gross margins. And also maybe

for you to estimate our future gross margins especially in the short-term maybe, in our backlog right now iron and steel industry representing 55% of our backlog so which means the iron and steel is still the major vertical in our backlog so that I think that number can help you to estimate our, at least the short-term gross margin.

Adele Mao: Great. That's helpful. Now that Brian just mentioned the growing contract size and I looked at the press release, it looks like the first time you guys released the number of contracts and if I were to take the revenue for the quarter and the number of contracts, it seems that average size of the contract has increased you know from 94 K last year to over 111 K this year. Do you think this is a trend that you are seeing? Seeing the growing contract size from your customer vertical?

Brian Lin: I think so. I think so. It's part of the new, the new fire protection law. I guess people, a lot of people are paying attention to fire safety and certainly the quality of the products and the quality of the solutions are becoming more and more important so the size, the contract size tends to get bigger and bigger now.

Adele Mao: So, as you diversify into other verticals beyond iron and steel, how shall we see the contract size evolving?

Robert Yuan: For the, for the, at least for transportation, the contract size would be bigger than smaller power plants and for the nuclear projects, the nuclear contracts that we won last year and also the beginning, the first part of this year, I think the contract size are also bigger.

Adele Mao: Okay, could you discuss a little bit more on your photoelectric product center? You mentioned that these products will be released by the end of the year. When do you expect these products to generate revenue and also if you could discuss generally how your new product development compared to the product development effort from your competitors, whether it's international or domestic competitors.

Brian Lin: These products are going to be used, these are new generation products, we have, we have flame detectors and gas detectors right now but these are, these are not the, this the first generation which there is some drawbacks we need to improve so we are selling these products right now but these new generation products will be sold for begin, from the beginning of next year or towards the end of this year.

From the competitive perspective, certainly there are various vendors in this market but we are from the local, from the Chinese manufacturer's perspective, we aspire to be on the leading edge of these products.

Adele Mao: What about international competitors?

Brian Lin: International competitors, there are other vendors whose products are out in the market probably for longer period of time and we have some track records in this new technology but we think with our R&D that we are where we should be able to compete with, compete with this prod, their products. We offer customers with good price performance ratios and which meets the fire standards of these products in China.

Adele Mao: I see. Just lastly, regarding your joint venture with Xingyao (sp?) I didn't catch that, with Xingyao Franchise (sp?), what's your percentage investment versus what that Xingyao company has invested?

Brian Lin: We have 80% of the issue (sp?).

Adele Mao: I see. I see. Okay, that's, these are all the questions I have. Thank you.

Brian Lin: Thank you.

Operator: We'll go next to Alex Potter with Piper Jaffray.

Alex Potter: Hi guys, thanks for taking my questions.

Brian Lin: Hi, Alex.

Alex Potter: I guess, another question following up on this gross margin issue, you know clearly the more iron and steel, large iron and steel projects that you can land, the better it will be for your gross margin. I was just wondering if there are any of these very, very large projects out there, I know that in 2008 for instance there was the, I believe it's the Capital Iron and Steel Telpedium (sp?) project was you know something on the order of \$18 million for a single contract. I was just wondering whether you have any more contracts like that on the horizon that you expect to be bidding on or winning given the new I guess stimulus plan and the economic process currently underway in China.

Brian Lin: Hmm. Alex, yes, right now there are at least two signal (sp?) projects like Telpedium pending approval (sp?) from the government. One is Funxingun (sp?), which is in Guangshin (sp?) province, and the, it's Wuhan and Iron, Wuhan's Iron and Steel is the company who is going to develop this new facility in Funxingun, Guangshin province, and the other one is going to be done by Bow Steel, the development is going to be Guangdong, in Shenzhen, the city of Shenzhen, so these two are all 20 million ton output iron and steel plants so we—but these are not approved yet by the government, but with this new consolidation plan issued by the ministry, by the government, we believe and we are also hopeful that these two projects will be approved by the

government in the near future and also for these retrofitting projects, we think since there is, for each of these, for some of our top tier customers, we already have between like 30-50 plants in place, yes, if they do go through this retrofitting projects, the size could be significant as well.

Alex Potter: Okay, great, one other question here, with regards to consolidation in the industry. I know that you've called out consolidation as being obviously a favorable trend for your company and there have been a couple of headlines specifically with regards to consolidation in the iron and steel industry in some of the papers over here in the States, of, I guess difficulties that the government has encountered with regards to consolidation. I was just wondering what your take on that is? Do you see consolidation moving forward as planned or slower than planned? And what sort of impact that might have on your business?

Brian Lin: I think the consolidation is going very quickly. We have seen several completion of consolidation already. I think Shandong province, Shandong Iron and Steel which cons—which has already consolidated quite a few iron and steel companies in that province, we also see Hubei Iron and Steel which consolidated quite a few iron and steel companies in Hubei province. So but there are also incidents where there are provinces (sp?) with consolidation, I think for example in the north that there is actually human casualties but I think this is part of the growing pain. This is a long-term process. The government certainly wants, encourages the consolidation so that there will be a, will be improved efficiencies, will be improvement in environmental control and also improvement in economies of scale. I think this is going to go along and we are very confident that this trend will continue.

Alex Potter: Okay, I guess on a somewhat related note, you had mentioned several times in your prepared remarks about the economic growth that China is currently experiencing, you know on track to hit the 8% and the new loans that are coming out from the government, I guess there have also been some concerns on just the China macro recovery in general that it might not be too sustainable I guess just from the perspective of some of these loans going out without a lot of consideration for risk. I was just wondering if you, if you see that being a potential issue going forward in a couple of years if you had some non-performing loans on some of these state-owned banks' balance sheets.

Brian Lin: Alex, that's a pretty big question for me. I think, right now the Chinese economy is on the path to achieving 8% growth rate which is very good for us and so we have been able to deliver these good financial results so far and going forward I think and also hope that the Chinese economy could continue the good growth rate as we have stated this year and with the investment in the infrastructure build out and with the backlog we have at hand, I think we are very comfortable with our financial results for 2009 and going

forward. Since we are, we have very small percentage of the overall industrial fire protection market, we only have about five to 6% of the market share, so there's a lot of room for us to grow our business. And for your other, I guess your question about the overall economy, I'm not here, I'm not able to answer your question on that part.

Alex Potter: Okay, sure, fair enough, and then I guess one last question on market share. You know you'd mentioned 5 to 6% market share figures. Obviously it's much higher than that in the iron and steel industry, especially among some of these top tier customers. I was just wondering if you could comment on trends with regards to market share in some of your other verticals, are you making progress in say power, petrochem, what do you have for estimates with regards to market share there and what are your expectations going forward?

Brian Lin: I think for the other industries, it's going to take some time for us to gain a big, much bigger market share. All the market share that we have seen in iron and steel industry which we have been working with since we formed the company in 1995, so it's about 14 years now but we have seen very good signs in the nuclear industry where we have probably between 20 to 30% of market share for the new projects in the nuclear industry so that's a good sign, shows that, that shows that we are able to execute our penetration into new industrial verticals and for other transportation, petrochemical et cetera so that we are, we have a working plan, we have dedicated sales teams to address this market, but the investors should realize that it's going to be a long-term strategy for us, we certainly will grow our market share in all these sectors.

Alex Potter: Okay, great, that does it for me, thanks a lot.

Brian Lin: Okay.

Operator: And we'll have our final question from Louis Corrigan with Kingsford Capital.

Louis Corrigan: Hi, thanks for taking my question. I want to go back to the accounts receivable and DSO questions. It looks to me like you recorded 8.3 million in net income and only 400,000 or about that in cash flow from operations and obviously that has to do with the billing accounts receivable and I look at this in a number of different ways; I look at just straight accounts receivable and then I add up all of your receivables accounts and subtract the customer deposits and billings X (sp?) the cost, and however I look at it, it really does look like you've had quite an increase in the accounts receivables, both sequentially and year-over-year, and on a DSO basis. In fact I think that the way I look at it, the net total DSO is now up to 230 days which is up about 40 days year-over-year. I guess my question is, this has been a trend and what is that you can do to

con—to con, to reverse this trend and what explains this trend? Because obviously we all want the company to be getting cash for its services.

Brian Lin: Mm-hmm, I guess your observation is somewhat correct, I think, but the bottom line is we are able to achieve positive cash flows from our operations, and if you recall that most of our revenues are generated from iron and steel industries and in the first half of the year, the iron and steel industry has been struggling, and it is over the last, I guess last, over the last quarter the steel price has been increasing and the tot—many of the companies are becoming profitable and so during the first half, many of the companies are maintain—trying to maintain their cash, so they have slowed down their payment in the first half, however with the, these companies becoming profitable I think they are in a better position now to pay to their customers now, their service providers.

Louis Corrigan: So you feel confident that you will be able to start collecting some of the cash?

Brian Lin: Certainly we are very positive and also some of—most of our customers are tier-one customers, tier-one iron and steel companies, very creditworthy customers. They might be slow in pay to us, in payment to us but they will certainly pay. When they are in difficult situations where they are not profitable, they are cash constrained, we just have to be supportive of their situation, and when business turns around, they will have cash in hand, certainly they will appreciate us and they will pay us as soon as possible.

Louis Corrigan: Okay, thank you.

Brian Lin: Sure.

Operator: And that concludes our question and answer session. I'll turn the conference back over to management for additional or closing remarks.

Brian Lin: Thank you everyone and thank you for participating in our 2009 second quarter conference call. Bye bye.

Operator: That concludes today's conference. Thank you for your participation.