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China Fire & Security Group, Incorporated Fourth Quarter 2008 Earnings Conference Call

Thursday, March 12, 2009, 8:00 a.m. EST

Officers

Michael Tieu; ICR; IR

Brian Lin; China Fire & Security Group; CEO

Robert Yuan; China Fire & Security Group; CAO

Analysts

Chenyi Lu; Brean Murray Carret; Analyst

Alex Potter; Piper Jaffray; Analyst

Adele Mao; Susquehanna Financial; Analyst

Tim Hanson; The Motley Fool;

Yan Cheung; Roth Capital Partners; Analyst

Vincent Wong; Private Investor

Presentation

Operator: Good day. You have been joined to your conference. (OPERATOR INSTRUCTIONS.) At this time, I would like to introduce Mr. Michael Tieu of ICR for opening remarks and introduction. Please go ahead.

Michael Tieu: Thank you, everyone, for joining us for the China Fire and Security Group Fourth Quarter 2008 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'm 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 include 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 condition, 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 expressively 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, March 12, 2009. China Fire and Security Group assumes no obligation to update these projections in the future as market conditions 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 introduce Brian Lin, Chief Executive Officer of China Fire and 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 fourth quarter 2008 conference call. Today we will discuss our financial results, talk about our recent developments and our strategic plans, and conclude with our guidance for full year 2009.

Despite a challenging global macroeconomic environment, we are very pleased with our fourth quarter and full year 2008 results. We continued to grow our business and our brand successfully, and we have further strengthened our position as the leading provider of industrial fire protection solutions in China. Before we get to the details of our full year and fourth quarter 2008 financial results, I would like to share with you highlights of our many achievements during the year as we continued to reach new records in our business.

We achieved record revenue of \$61 million, an increase of \$22.3 million, or 47.8%, over the previous year. We also had record net income of 24.7 million, a year-over-year increase of 47%. We ended the year with a record strong backlog of 72 million, as compared to 62 million at the end of 2007. During the year, we also had major contract wins in iron and steel, including Juiquan Iron and Steel Group, Wuhan Iron and Steel Group, Anshan Iron and Steel Group, and Echeng Iron and Steel. We also won major contracts in petrochem, nuclear, and transportation, including five regional power plants of DaTang [in China Nuclear Power Engineering].

As you can see from our many highlights, 2008 was another successful year for China Fire, and I am especially pleased that momentum remains brisk, as our rate of contract wins and new contract bids since our return from the Chinese New Year holidays in February continues to be strong, boosted by a combination of China's stimulus plan, consolidation of the iron and steel industry, and the continued build out of nuclear generators, power generators, oil refineries, and railway systems. We are seeing strong demand for our fire protection systems. We are also excited about our international expansion opportunities and such even with the challenging global macroeconomic environment as the backdrop. I'm proud of our many achievements in 2008 and I'm excited about 2009, which I will discuss in more detail later in this conference call.

At this point, however, let me turn the call over to Robert for a detailed discussion on our fourth quarter and full year financial results. Afterwards, I will return to discuss our recent developments and our strategic plans and conclude with our guidance for full year 2009. Robert?

Robert Yuan: Thank you, Brian. I am very pleased that China Fire has to date, despite (inaudible) many companies are experiencing around the world and has once again accomplished solid quarterly and annual financial performance. Our revenue for the full year 2008 grew 47.8% to a

record 69.1 million, up from 46.8 million in 2007, driven by our strong growth in system contracting projects. During 2008, we completed 360 total solutions and product sales contracts compared to 274 contracts in the previous year. The iron and steel industry is still our largest sector and contributed 81% of our revenue, followed by power generation at 9%, and petrochemical at 4%.

During 2008, Capital Iron and Steel was our largest customer, contributing 17.6 million, or 30.8% of total revenue, as we continue to fulfill our 31 million contract that is expected to complete in 2009. Our gross margin for 2008 was a strong 57.2%, or 230 basis points higher than our 2007 gross margin of 54.9%, increasing our gross margin (inaudible) from a higher percentage use of our proprietary products to fulfill contracts which contributed higher gross margin than third party products. This increase was also attributable to a higher selling price of some of our proprietary products in 2008. While we are delighted by the strong gross margin achieved in 2008, we continue to reiterate our long-term view that our gross margin will range between 45% to 55% as we plan to further expand into other verticals and markets which may require more use of third party products and/or initial price incentives.

Driven by the strong revenue growth and gross margin expansion, our operating income grew 58.3% to 23.6 million in 2008, as compared to 14.9 million in 2007. Correspondingly, our 2008 operating margins expanded to 34.1%, or 230 basis points higher than our 2007 operating margin of 31.8%. During the year, our operating expenses totaled 15.9 million in 2008, compared to 10.8 million in 2007, as we continue to invest in sales and development.

As some of you may remember, China Fire was a key participant in the 12th International Fire Protection Equipment Technology Conference and Exposition in Beijing and also held a technical seminar on technology innovation and intellectual property protection. These marketing programs further elevated our industry leading brand among our peers, customers, and regulators. We also invest [adequately] into our research and development. We continue to yield a strong pipeline of practical as well as patentable innovations.

On the other hand, we managed our general overhead expenses with sound discipline as our G&A expenses increased a moderate 18.0% year-over-year rate, which is less than half our revenue growth rate. As a result, our GAAP net income grew by 7.9 million, or 47%, to 24.7 million in the year 2008 versus 16.8 million in the year 2007. Similarly, our fully diluted GAAP EPS grew 44.6% to \$0.88, compared to \$0.61 in the previous year.

Continuing the trend from each of our previous three quarters of the year, our revenue for the fourth quarter of 2008 grew 48.7% to 21.0 million, compared to 40--14.1 million for the third quarter of 2007. We continue to benefit from our strong pipeline of new total solution projects, as well as uninterrupted completion of milestones on our last projects, such as Shougang Jingtang [and Xinyu] Iron and Steel Group during the fourth quarter. We generated revenue from 214 total solutions, product sales, and maintenance contracts. Total solution revenue increased 41.8% to 16.0 million versus 11.3 million in the fourth quarter of 2007, generated from the 115 total solution contracts. Our product sales grew 142.5% year-over-year to 4.3 million, driven by higher post-Olympic fulfillment business activities. Maintenance and service revenue decreased 371,000 to [654,000] due to the timing of maintenance service contract renewals. As

we continue to fulfill large contracts with our core customers, the iron and steel industry remains the largest vertical, contributing approximately 82% of total fourth quarter revenue.

Power generation and petrochemical contributed approximately 4% and 10%, respectively. Other verticals contributed approximately 4% of our revenue during the quarter. Our fourth quarter gross margin improved 110 basis points year-over-year to 54.3%, which although remaining at the high end of our target range, declined sequentially from the particularly high third quarter gross margin of 58.9%.

Our operating income for the fourth quarter grew 55.2% to 6.2 million from 4.0 million for the same period of last year. Our operating margin was expanded year-over-year to 29.5% from 28.3% even as our operating expenses increased 49.7% year-over-year to 5.2 million. This increase was mainly attributable to higher sales activities as well as higher general and administrative expenses due to increasing our account and year-end incentives.

As a percentage of revenue, our SG&A improved by seven basis points to 21.4% versus 22.1% in the same period of last year. Our R&D expenses were 446,000, as compared to 215,000 in the same period 2007, as we continue to innovate and develop further improvements to our LHDs, water mist systems, and software for our detection and control systems. Our total other income was 632,000 for the fourth quarter of 2008, compared to 54,000 for the same period 2007 as we earned higher other income from higher VAT, value added tax rebates, and higher interest income. Due to the income tax recovery from one of our subsidiaries, Tianxiao Fire Safety Equipment, our provision for taxing--for income tax was a negative \$6,000 in the fourth quarter of 2008, compared to a 5,000 provision for the income tax for the same period of last year. Beginning in 2009, we anticipate that China Fire will be subject to an effective tax rate of approximately 13%.

Our GAAP net income for the fourth quarter of 2008 grew 69.2% to 6.8 million, as compared to 4.0 million for the same period of 2007, driven by the growth in our top line and expansion in our operating margins. As a result, our fully diluted GAAP EPS grew more than 70% to \$0.24 from \$0.14 a year ago. At the end of the fourth quarter our total backlog was 72 million, up from [62 million] at the end of 2007. As previously discussed, we believe our strong backlog provides us with excellent revenue visibility over the next 12 months, and therefore provides us with additional comfort in our business projection in the current challenging environment.

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 will have significant change or that I believe can have material impact to our ongoing operations.

As of December 31, 2008, we have cash and cash equivalents of 26.7 million, a sequential increase of 4.9 million, as we continue to generate positive cash flow from operations. During the quarter, we generated 6 million cash from operations, driven by our strong net income and our continued focus on receivables and inventory management. Our net receivables totaled 25.8 million, up sequentially from 19.2 million, however, our days' sales outstanding, or DSOs, were 113 days for the fourth quarter of 2008, an improvement from 117 days last quarter, benefiting

from our increased year-end cash collection activities.

Our inventory was 6.5 million, a decrease of 1.2 million from 7.8 million at end of September. Accordingly, our working capital increased by approximately 6 million to 65 million, up from 59 million at end of the third quarter. We currently have no bank loans or long-term debt and such that our total shareholder equity increased sequentially by 7.0 million to 78.7 million at end of December 2008.

In summary, I am very proud of our strong financial performance in the fourth quarter and the consistent growth and the profitability throughout the year despite the reported reduction in the global steel RPU's. And our solid business model and tier one Chinese customers have combined to provide us with sustainable drivers to support our continued growth and profitability. Moreover, our strong balance sheet with growing cash [and no debt] combined with solid cash flow from operations [afford us] to a strong position to further advance our industry leadership, increase our market share, and explore other strategic opportunities.

Now, I would like to turn the call back to Brian for discussing our recent developments and our strategic plans.

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 aims. Firstly, we will continue to focus on our core tier one customers in China's iron and steel industry as we aim to further expand our leading position of market share. As you may know, our fire protection systems are installed in 70% of the largest new systems in China's steel industry and our current customers include the largest steel producers.

Despite general concerns of challenging times for the iron and steel industry, we are actually witnessing strong demand for our total solutions in this vertical, as some of our tier one customers are receiving more government subsidized funding, a pick up in demand from the end of last year. And as for government support for consolidation, according to the Minister of PRC's Ministry of Industry and Information Technology, the Ministry will spend 15 billion RMB, or approximately US\$2.2 billion, to subsidize loan interest--at no interest for technology upgrades and reform projects in the iron and steel industry. Similarly, China's State Council is expected to release the China Fire and Steel Industry's Revitalization Scheme, which will provide financial subsidies and loan discounts to leading iron and steel companies.

Furthermore, approximately half of the government's 4 trillion RMB, or approximately US\$485 billion, stimulus plan will be allocated for investments into steel consuming infrastructure construction projects. And it is expected that the stimulus plan will drive demand for an additional 100 million metric tons of steel. Moreover, according to the China Iron and Steel Association, China is preparing a three-year plan to consolidate its steel industry, engineering the rise of three major steel groups. Shanghai-based Baosteel Group, Wuhan Iron and Steel Group, and the combined group led by Anshan Iron and Steel Group and Benxi Iron and Steel Group will be the consolidation. The three will emerge as China's steel giants, each with having a

capacity of over [50 million] metric tons by 2011.

We are happy to report that all three are existing customers. Since the government wants to foster several globally competitive large scale steel groups, the top five steel groups will likely account for 45% of the country's total capacity. We believe that as the industry consolidates, the large producers will continue to operate their production facilities to modern standards, which creates additional demand for our solutions. It is well known that our fire protection systems can truly ensure that our customers' production facilities are fully compliant with China's new mandatory fire code, and therefore, we believe that they are indispensable for new or recently upgraded iron and steel production facilities. As such, contrary to general perceptions regarding the iron and steel industry in China, we are very excited about our revenue opportunities in this core vertical.

Secondly, we will further expand into other complementary verticals by leveraging our leading brand and total solution offerings. We are very pleased with our momentum in the power generation vertical as we won contracts totaling 13.4 million in 2008, versus 4.4 million in 2007. According to the China Electricity Council, China will invest \$44 billion on new power generation capacity this year.

We're also very pleased that the nuclear sector has already become our new large vertical in 2008 as we won a total of \$12.9 million in new contracts as compared to less than \$1 million in 2007. China plans to invest 450 billion RMB, or approximately \$66 billion, on nuclear power developments by 2020, and we are already seeing direct benefits. Last year, shortly after the announcement of the stimulus plan, three large nuclear power projects costing RMB 120 billion, or approximately US\$18 billion, received the go-ahead to start construction. We are also satisfied with our further penetration in the petrochemicals vertical as we grew contract wins at 56% to 6.5 million in 2008. As part of a petrochemical stimulus package recently approved by the State Council, China plans to build new refineries with total crude processing capacity of 2.19 million barrels a day and establish an oil product reserve system that could [see] overall reserve volume of 10 million tons within three years.

Furthermore, the National Energy Administration's three-year energy blueprint includes building three refinery bases in the eastern cities of Shanghai, Ningbo and Nanjing, each with annual crude processing capacity of 30 million tons, or close to 602,500 barrels per day. In addition, the plan proposes six refinery bases in the southern cities of Maoming, Guangzhou, Huizhou, and Quanzhou, and northern cities of Tianjin and Caofeidian, each with an annual capacity of 20 million tons, or around 400,000 barrels per day.

We are very excited about our revenue opportunities in the transportation vertical as well. It is estimated that over 700 billion will be invested in transportation over the next five years, with \$300 billion in railway over the next two years and \$15 billion annually for subways. The Chinese government will speed up the construction of railway lines, including high speed lines linking major cities. The revised plan calls for extending the total length of China's railways to 120,000 kilometers by 2020, up 50% from the total length at the end of 2008.

We believe that most of the infrastructure investments mentioned above will directly benefit

China Fire, as they all require fire protection products and services. As such we will continue to strengthen our integrated product sales as well as total solutions to cater to these industries.

Thirdly, we will continue to invest in technology innovations and influence the development of new fire standards and code enhancements. 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.

Furthermore, we are highly optimistic about several new innovative products in our product pipeline that we believe can become significant contributors to our future growth. Moreover, our officers are on a number of drafting committees on industry standards such as develop fire safety standards for metallurgy, iron, and steel enterprises, and standardization for fire safety designs at thermal power generating plants and thermal transformer stations. We continue to actively advise regulatory bodies in China and we believe that our close participation in the development of new standards and code enhancements continue to elevate our brands and enhances our competitive strength position.

Specifically, we anticipate that this May, China will issue a major amendment to the National Fire Code and Fire Law. This fire law will stipulate higher requirements for fire safety products, requiring all fire safety products to fully comply with current national standards and discarding dated products. The new fire law will also enforce stricter controls over industrial facilities while assigning penalty and liability to the facilities' owners in the event of fire hazards. We believe this will drive higher demand for fire safety products and services in general, and more correspondingly, higher demand for our industry leading solutions.

Fourthly, we will actively pursue fire protection projects and product sales in international markets. I am pleased to report two new contract wins in international markets totaling more than \$3 million. The first is a \$2.5--\$2.1 million contract win in India where China Fire will serve as the total fire protection solution provider for BALCO captive power plants. China Fire will be responsible for implementing the entire fire protection system for the project, including engineering, procurement, construction, monitoring, technical guidance, and maintenance. The project is expected to be fulfilled in the next 18 months.

The second is a \$1.1 million contract win in Indonesia. China Fire will serve as the fire safety products provider for the PLTU 3 [Banten] Power Station project. Apart from being the fire safety products provider, China Fire will also provide design, engineer, monitoring, and technical guidance for the project. Under the contract, China Fire will provide both extinguishing and detection products. The project is expected to be fulfilled in the next 12 months.

Fifthly, we will continue to proactively explore strategic merger and acquisition targets. Strictly speaking, 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 revenue. 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 have adopted tighter credit controls, implemented more proactive receivable collection policies, and enforced stricter accounts payable procedures. We are also reviewing and improving our internal controls, talent management, and financial planning systems.

While we are mindful of the difficult environment, we are comfortable with our business visibility based on our strong backlog and above mentioned strong growth drivers. For the full year 2009, the company anticipates revenue will grow between 28 to 38% to a range of \$88 million to \$95 million. Pre-tax income is expected to grow between 22 to 32% to a range of \$30.2 million to \$32.6 million. Assuming an effective tax rate of 13%, net income is estimated to grow between 7 to 15% to a range of \$26.3 million to \$28.4 million, or \$0.93 to \$1 per diluted share based on 28.3 million shares outstanding. Please note that our effective tax rate in 2008 was 0.2%.

In closing, we continue to work diligently to optimize shareholder value by focusing on growing our business strategically and profitably by capitalizing on great opportunities and by expanding our technical and market leadership. We continue to be excited with our growth prospects in our core iron and steel markets and customer base. We also are very excited with our success in energy, petrochemical, and transportation verticals, as well as our new contract wins in international markets. Lastly, we are pleased with our strong balance sheet and cash flows, and believe we are in an excellent position to capture new strategic opportunities.

This concludes my prepared remarks for the fourth quarter 2008 and the full year 2008.

Operator, we will now open the call up for questions. Go ahead.

Questions and Answers

Operator: Thank you, sir. (OPERATOR INSTRUCTIONS.) The first question comes from Chenyi Lu of Brean Murray Carret. Please go ahead.

Chenyi Lu: Thank you, Brian and Robert. Very good quarter. I have two questions. The first question I'd like to ask is do you see any contract delay given the current--the weak economy in China?

Brian Lin: You mean the contract execution?

Chenyi Lu: Yes. In terms of any project deployment delay as to some of your customers may say, you know what, why not just postpone the project right now. Do you see any activity related to that?

Brian Lin: This varies in these large customers. I think the end of last year there might be some delay, but it's been picked up since the beginning of this year with the stimulus plan, with overall government support for these companies. We are only addressing and serving these large customers. So overall, we see business as usual.

Chenyi Lu: Okay, great. So what I mean is--I mean, because you still [comp with our] consensus number. So even if it's more delay in the last quarter, [so we still] need a number. But as of now, you have not seen any delay, right?

Brian Lin: Yes.

Chenyi Lu: Okay. Let's move on to my second question. Can you discuss about the current contract activities in the iron and steel industry? And then, can you also talk about what you see in terms of contract [synergy] going forward into 2009 related to the iron and steel industry? Thank you.

Brian Lin: As I stated in my prepared remarks, in the iron and steel industry overall it's not as good as last year. But with the Chinese stimulus plan and the government revitalization scheme for the steel industry, the top tier customers are still going strong. And with the mandate by 2012 there will be three largest--they're like steel giants in China, each with capacity of over 15 million metric tons of capacity. So that just gets (inaudible) government support for the consolidation. So we still see a lot of project potential for us in 2009 and our sales are actively following all these potential projects right now.

Chenyi Lu: So at this moment, you probably still expect the contract activity is going to be up year-over-year in 2009 for iron and steel industry, right?

Brian Lin: Yes. We still see that the--there's two aspects. One is the contract signing and the other one is the revenue recognition. From revenue recognition wise we still have a lot of backlog from 2008 carrying over to 2009, which will be recognized in 2009. So those will certainly be a major source of revenue for 2009. In the meantime, we will continue to expect

more project signings in 2009.

Chenyi Lu: Okay, great. Thank you. That's all my questions.

Brian Lin: Thank you.

Operator: The next question comes from Alex Potter of Piper Jaffray. Please go ahead.

Alex Potter: Hi, guys. Thank a lot for taking my question. Congratulations on the quarter. First of all, I guess just as a kind of follow up and clarification to that last question, I guess not just with regard to the iron and steel industry, but just as a whole for your company. Do you expect to see--am I hearing this correctly that you expect to see more new order activity in 2009, exclusive of the backlog, so just new order signing in 2009 as compared to 2008?

Brian Lin: Yes. We believe the current Chinese economic environment, especially with the stimulus package plan, provides us with good opportunities for new projects coming. And internally we do have higher expectations than last year from our sales force. And so, especially as we're looking from a government support perspective, consolidation in the iron and steel industry, and the stimulus plan also, (inaudible) slowing, and the global economic environment, and the government is also subsidizing and promoting the infrastructure spending, which are really, for us is across all the industries that we serve in. Not only iron and steel, but also other industries as well.

Alex Potter: Great. Okay. I guess then following up there, I know that you had mentioned what the breakdown was in terms of revenue between these different end markets in 2008. I was wondering if you have a breakdown by end market, kind of an expectation for 2009. Do you think iron and steel will still be in that 80% range or do you think some of these other verticals will start I guess incorporating a larger percentage of your revenue?

Brian Lin: We do expect growth in all different sectors, the iron and steel industry will remain the major source of our revenues for 2009, whether it will be around 80% range or not, it's hard to say. I think it probably will be lower than 80%, with the pick-up in other industries like power, like petrochemical, and also international markets. So, I think it will be more balanced. I think, like I said, it's more balanced than 2008.

Alex Potter: Okay. And then, I guess I know that you had mentioned a range, kind of a long-range gross profit margin expectation of 45% to 55%. Where do you think 2009 will fall within this range?

Brian Lin: For 2009, since the nature of our revenue recognition, part of the--it's based on percentage completion, and there is sort of lot of--the majority of our revenues recognized in 2009 will be actual projects carried over from 2008. So we do expect in 2009 that our gross margins will likely be within the range of a 45% to 55% range.

Alex Potter: Okay.

Brian Lin: Unless something very significantly happens, that all will go into the majority of our revenues coming from newer verticals other than iron and steel. In those cases we might have a profit margin towards the lower end, but at this point of time it's unlikely.

Alex Potter: Okay. And then I guess just one last question here on mergers and acquisitions. You mentioned that you are still actively pursuing that strategy. I was just wondering if you have any kind of specific comments on recent developments with regard to that, potentially in the nuclear sector or in any other sector?

Brian Lin: I think we are very active in looking at opportunities in various new sectors. But at this (inaudible) time, I think our focus will be on cost control and make sure we can win the contracts that are already there and we are experiencing. So we will try to leverage our strength, rather than spread out our resources thin. And that--especially in this economic environment, we want to make sure we get the best of--the best shot of our effort.

Alex Potter: Okay. Perfect. Thanks. That's my last question. Thank you very much.

Brian Lin: Thank you.

Operator: The next question comes from Adele Mao of Susquehanna International. Please go ahead.

Adele Mao: Hi. I have several questions, my first question is related to your backlog. You mentioned that your backlog at year end 2008 is \$72 million. I was wondering if the international contracts you mentioned in India and Indonesia are already included in this backlog number?

Brian Lin: No, they are not, Adele. These two contracts were signed in this year, in 2009.

Adele Mao: I see. Okay. So if I were to add everything up, you have 3 million backlog from the international contracts, and then you've had two contracts announcements since early 2009 - that totals up about six. So, I would think it's safe to assume that your backlog as we stand today is at least 72 plus 9. It would be over \$80 million. Is that correct?

Brian Lin: That's not correct, Adele. As I mentioned in my prepared remarks, that since after the Chinese New Year we do see a pick up in projects. And we have quite a few award of winning a contract from our customers since then, because mainly due to the government stimulus plan and the iron and steel industry's revitalization scheme, which allows our major loyal customers to be able to continue with a proposed build-out. But we do see actually more backlog than what you just described.

Adele Mao: Okay. So, the number as we stand today should be much higher than just 80 million. Okay. Let's move on to the revenue guidance. So if the backlog is well over 80 million right now, could you just walk us through how you get to your 88 million to 95 million [top like] items, specifically, the percentage of the backlog you expect to book in 2009, and the percentage--the new contract that you sort of need to bring in, in order to reach your guidance?

Brian Lin: Okay. I think you have been kind of observing our company for the last two or three years. I think you can see historically about 80% of our backlog will be recognized in the next 12 months. So given that we have about--we have \$72 million backlog now, and we are likely to recognize about \$56 million in 2009, at this point this is roughly about 60% of our guidance already. And with these new contracts we signed during this last 12--last two months and the--and we still have 10 months to go, we believe we should be able to fulfill more contracts and achieve our guidance.

Adele Mao: Okay, that's very helpful. Lastly, the fire law that you mentioned that is supposed to come out in May of this year, do you expect the government to enforce the stricter fire safety codes immediately or any penalty related to non-compliance is still sort of up in the air?

Brian Lin: I cannot speak for the government. I think government has been very proactively enforcing these new fire laws. I think we recently--actually, during the end of the Chinese New Year there was a big fire in the CCTV station, which caused a lot of attention in the society and also the government. So, we all realize the importance of fire safety and that the government is going in the right direction. We all are very hopeful that these will turn into real business opportunities for China Fire.

Adele Mao: Okay. Just one more question on the balance sheet. Regarding the accounts receivable, it went up a little bit to 26 million. Obviously, you guys have booked a lot more revenue this quarter. Could you--are you seeing any changes, whether it's positive or negative, on the collection front since early 2009?

Brian Lin: I will have Robert answer the question.

Robert Yuan: Yes, Adele. Yes. Actually, we definitely--currently we are focused on this--our account receivable management, and also maybe you want to take a look at our DSOs on lets say on a quarterly basis for the year 2008. So it's basically in the range of from 110 days to 120 days. So actually, that means our account receivables increase reasonably with our revenues. So, I think it's still in a [comfortable] range of our account receivables.

Adele Mao: Okay, that's great. Thanks very much.

Robert Yuan: Okay.

Brian Lin: Thank you, Adele.

Operator: The next question comes from Tim Hanson of The Motley Fool. Please go ahead.

Tim Hanson: Hi, Brian and Robert. How are you guys?

Brian Lin: Hi Tim. How are you?

Robert Yuan: Hi.

Tim Hanson: Good, thanks. I just had--my first question is I saw the big jump in product sales this quarter, and I was just wondering what the driver behind that big jump was?

Brian Lin: Okay. Well, I think we mentioned in the conference call earlier that--.

Tim Hanson: Oh, I'm sorry.

Brian Lin: It is mainly because of the post-Olympics activities. During the Olympics, a lot of the shipping was halted and some of the projects were also slowed down. So, that's why we've got to back-fill those contracts in the last quarter.

Tim Hanson: Okay, perfect. And my second question was, on the maintenance revenues do you see any effects right now from any plant slowdowns reducing maintenance revenues? And then, over the longer term though the industry consolidation should help assist with contracts and product sales, will consolidation have any effect on maintenance revenues?

Brian Lin: On the maintenance revenues, I think right now it's a very small percentage as compared to our total revenue since we do--we are really looking at much bigger projects to leverage our strength. Maintenance is something we always would like to have, if possible. It's not the focus of the company at this time of the year. But I think with the major consolidation, since we are serving our customers well and we like to see that they are able to have maintenance service on contracts plus--as well after the one-year warranty period is completed. So, we do hope that we are able to provide overall maintenance services to the customer as well.

Tim Hanson: Okay. And then lastly, I was very impressed with the cash on the balance sheet this quarter. I was just wondering if you guys had given any thoughts to maybe doing a repurchase or following through on a repurchase now that you have sort of this--in addition to any M&A you're looking at, now that you have some excess cash. And I think--I don't think the American market is giving your company as much credit as it deserves right now.

Robert Yuan: Right, right. Maybe--I think the cash we have, it is important to support our growth. We want to really manage those cash very carefully. When time permits, when opportunities come, we will pursue M&A activities by using some of the cash available. But I think we are--just going forward we will try to--when opportunities come we might do share buyback as well, as we--or the Board already approved for the share--the \$10 million worth of share buyback program. But we will do whatever is best for the shareholder and to improve our EPS.

Tim Hanson: Okay. Well, we would love to see you do that, if you get the chance, so that would be great. And those are all my questions. Thanks, guys.

Robert Yuan: Okay. Thank you.

Operator: The next question is from [Yan Cheung] of Roth Capital Partners. Please go ahead.

Yan Cheung: Hello. Good evening.

Brian Lin: Hello.

Yan Cheung: Congratulations on your good quarter.

Brian Lin: Thank you.

Yan Cheung: Most of my questions have been answered. So, I just only have a minor question on your SG&A expenses. I noticed that you have higher expenses this quarter than the previous. And so, do you expect this level of SG&A costs going forward?

Robert Yuan: Okay. For the SG&As, we have been pretty much consistent at around 20%-- between 19% to 21%. So we do see this continue over the next couple of years, even though we might have a better SG&A as we have some operational efficiencies as we grow our revenues. But I think that during the last quarter we have increased slightly in the SG&A, because most-- because of the year end incentives and related sales efforts to get ready for the next year's sales opportunities. But it's not something very extraordinary. So we--in summary, we do see that we'd like to maintain the SG&A level around 20%.

Yan Cheung: All right. Okay. Thank you very much.

Robert Yuan: Okay. Thank you.

Operator: (OPERATOR INSTRUCTIONS.) We have a question from [Vincent Wong], a Private Investor. Please go ahead.

Vincent Wong: Hello. This is Vincent Wong. I'm from Shanghai. And congratulations on your fourth quarter. Well, I have a couple of questions. The first one, I know for 2009 supposed tax rate is about 13%. But I know eventually the tax rate should be 25%, so which year will be--the tax rate will be 25%? That's my first--.

Brian Lin: --Okay. Currently, our tax rate is for the foreign [investor] company our rate is 12-- [nominal] rate is 12.5%, which we will restart in 2009 and continue on to 2010 and 2011. And after that we will be subject to 25%. However, we are also being approved as a high tech company, which in China we might be subject to a 15% reduced tax rate. But we are not at this time that we can--I think we are enjoying 12.5%, which is better than 15% now.

Vincent Wong: Okay. So for 2012, the tax rate will be 25%, right?

Brian Lin: Right. Or 15%.

Vincent Wong: Okay. Second question, do you have annualized future financial outlook for 2009 and 2010? Do you think in 2009 your business will fall? If not, how could you like take action against current declining market?

Brian Lin: Okay. In my previous prepared remarks I stated our guidance for 2009, which I can repeat for you. The--we think the number--the revenue will grow between 28% to 38% and to a range of 88 million to 95 million. Our pre-tax income is expected to grow between 22% to 32%, to a range of \$30.2 million to \$32.6 million. So we do see positive growth in 2009 for China Fire.

Operator: There are no further questions at this time.

Brian Lin: Thank you.

Operator: At this time the conference has ended. You may now disconnect your line.

Brian Lin: Okay. Thank you.