

CHINA FIRE & SECURITY GROUP, INC.

FORM 8-K (Current report filing)

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): November 13, 2007

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

**Florida
(State or other jurisdiction of
incorporation or organization)**

**000-50491
(Commission File No.)**

**65-1193022
(IRS Employee
Identification No.)**

**South Banbidian Industrial Park,
Liqiao Township, Shunyi District
Beijing 101304, People's Republic of China
(Address of Principal Executive Offices)**

**(86-10) 8416 3816
(Issuer Telephone number)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On November 13, 2007, China Fire & Security Group, Inc. (the “Company”) issued a press release announcing its results for the third quarter ended September 30, 2007. The press release is attached as Exhibit 99.1 this report on Form 8-K.

The information contained in this Current Report on Form 8-K and the exhibits attached hereto shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall such information or such exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The information set forth in or exhibits to this Form 8-K shall not be deemed an admission as to the materiality of any information in this report on Form 8-K that is required to be disclosed solely to satisfy the requirements of Regulation FD.

Item 7.01 Regulation FD Disclosure

On November 13, 2007, the Company holds an earnings conference in connection with its earnings release for the third quarter 2007. The earnings conference script is attached as Exhibit 99.2 to this report on Form 8-K.

The information contained in this Current Report on Form 8-K and the exhibits attached hereto shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall such information or such exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The information set forth in or exhibits to this Form 8-K shall not be deemed an admission as to the materiality of any information in this report on Form 8-K that is required to be disclosed solely to satisfy the requirements of Regulation FD.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Copy of News Release, dated November 13, 2007.

99.2 Copy of Conference Transcript, dated November 13, 2007

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CHINA FIRE & SECURITY GROUP, INC.

Date: November 13, 2007

By: /s/ Brian Lin

Name: Brian Lin

Title: Chief Executive Officer

China Fire Reports Record Third Quarter 2007 Results; Raises Financial Guidance For 2007

BEIJING, November 13, 2007 -- China Fire & Security Group, Inc. (NASDAQ: CFSG), a leading industrial fire protection products and solutions provider in China announced its financial results for the third quarter ended September 30, 2007. The Company will host a conference call to discuss these results on Tuesday at 8:00 AM EST November 13, 2007.

Q3 Highlights

- Record revenues increased 44.2 % from last year to a record \$11.6 million
- Gross margin improved to 59.2%
- Record GAAP net income increased 186.8% from last year to a record \$4.4 million
- Fully diluted EPS of \$0.16 (year-on-year increase of 147.4%)
- New contract announced with Wuhan Iron & Steel Group, \$4.1 million
- New contract announced with Handan Iron & Steel Group, \$2.9 million
- Raised 2007 net income guidance to \$16.6 million and fully diluted EPS to \$0.60

Key Financial Indicators:

(All numbers in USD millions, except per-share amounts)

	Q3 2007	Q3 2006	Percent Change
Revenues	11.6	8.0	44%
Gross Profit	6.9	3.8	80%
Operating Income	4.1	1.2	253%
Net Income	4.4	1.5	187%
EPS Diluted	0.16	0.06	147%

Revenue increased for the third consecutive quarter to a record \$11.6 million, up 44.2 percent from \$8.0 million for the third quarter 2006. This increase was mainly attributable to the growth of product sales and the execution of contracts at bigger value. During this quarter, the revenues from total solution contracts increased by 7.8 percent to \$6.1 million, compared to \$5.7 million in the same period of last year. The revenues from product sales increased by 133.1 percent to \$5.2 million, compared to \$2.2 million of last year. The three largest customers were Maanshan Iron and Steel Group, Sichuan Dongfang Electronic Equipment and PetroChina, which total contributed approximately \$4.9 million of the revenues, representing 43.0 percent of total revenues for this period.

Gross profit for the quarter increased by 79.6 percent to \$6.9 million from \$3.8 million for the period last year. Gross margins improved to 59.2% due to the higher revenue contribution from the sales of the Company's proprietary products, which enjoy higher margins.

"We are pleased to report another consecutive quarter of record revenues. During this quarter our top three customers are from Iron and Steel, Power, and petrochemical sectors, reflecting our continuous success in our focused industries," commented Mr. Brian Lin, Chief Executive Officer of China Fire & Security Group, Inc. "During this quarter we have signed contracts with both existing clients as well as new clients. On September 4, we announced that we successfully extended our current business relationship with our existing clients, Wuhan Iron & Steel and Handan Iron & Steel Group, by securing two new contracts with values of \$4.1 million and \$2.9 million respectively. With the adoption of the new fire codes in Iron and Steel industry, we are well positioned to benefit from the expansion, relocation, and modernization of large steel companies," Mr. Lin continued.

Operating expense was approximately \$2.8 million for this quarter, as compared to approximately \$2.7 million of last year. Operating income was approximately \$4.1 million, compared to \$1.2 million for the same period of last year, representing 253.0 percent annual growth of operating income. The improvement in operating income was mainly attributable to the increase in revenue and gross margin and the benefit of improved cost controls. For the third quarter, reported GAAP net income was \$4.4 million and fully diluted EPS of \$0.16 as compared to \$1.5 million and \$0.06 last year.

Nine Month Financial Results

Revenue for the first nine months of 2007 was \$32.6 as compared to \$23.1 million of year 2006, which represent an increase of approximately \$9.6 million or 41.5 percent. This increase was mainly attributable to the further penetration of the Company's customer base in the iron and steel, power, and petrochemical industries and the execution of more contracts in the period. Gross margin for the period was 55.7 percent, which is higher than the gross margin of 52.6 percent for the same period of 2006. The increase in gross margin was mainly due to the use of a higher percentage of the Company's proprietary products that tend to provide higher margins.

Operating income was approximately \$10.9 million for the nine months ended September 30, 2007 as compared to approximately \$6.8 million for the nine months ended September 30, 2006, which represent an increase of \$4.1 million or 59.2 percent. The increase was mainly due to the increase in our revenues and higher gross margin in this period even though we had a significant increase in our operating expenses related to being a public company and related to increasing our sales activities.

Net income was approximately \$12.8 million for the nine months ended September 30, 2007 as compared to approximately \$7.3 million net income for the nine months ended September 30, 2006, which represent an increase of 5.5 million or 73.7 percent. Net profit margin for the nine months ended September 30, 2007 was 39.1 percent, which is higher than the net profit margin of 31.9 percent for the same period of 2006. The reason for the increase in the net income was mainly due to the increase in revenues and operating margin and the non-cash credit of \$1.2 million related to the change in fair value of derivative instruments. Excluding the one-time credit of approximately \$1.2 million from the change in fair value of derivatives, the pro forma net income is \$11.6 million for the nine months ended September 30, 2007.

" We are very pleased with our record third quarter results as they exceeded our expectations. We hope that as we look to maintain our leading position in the industry, we are very confident to meet our newly updated guidance for 2007 ," concluded Mr. Brian Lin .

Increase of 2007 Financial Guidance

With the stronger-than-expected gross profit in the third quarter, the Company is pleased to announce an upward revision of its 2007 full year guidance to at least \$16.6 million in net income from an earlier guidance of \$14.7 million to \$15.0 million, and to at least \$0.60 in fully diluted EPS from an earlier guidance of \$0.53 to \$0.54. These projections are based on generally accepted accounting principles (GAAP).

Teleconference Information

The conference call will take place at 8:00 a.m. EST on Tuesday, November 13, 2007. Interested participants should call 1-800-860-2442 when calling within the United States or 1-412-858-4600 when calling internationally. There will be a playback available until November 28, 2007. To listen to the playback, please call 1-877-344-7529 when calling within the United States and Canada or 1-412-317-0088 when calling internationally. Please use pass code 413018# for the replay. This call is being web cast by MultiVu and can be accessed by clicking on this link <http://www.videonewswire.com/event.asp?id=43841>.

About China Fire & Security Group, Inc.

China Fire & Security Group, Inc., through its wholly owned subsidiaries, Sureland Industrial Fire Safety Limited ("Sureland") and Sureland Industrial Fire Equipment (Beijing) Limited ("Sureland Equipment"), is engaged primarily in the design, development, manufacture and sale in China of a variety of fire safety products for the industrial fire safety market and the design and installation of industrial fire safety systems in which it uses its own fire safety products. It also provides maintenance services for customers of its industrial fire safety systems.

Headquartered in Beijing with over 30 sales and project offices throughout China, Sureland markets its industrial fire safety products and systems primarily to major companies in the iron and steel, power and petrochemical industries in China. It is developing and expanding its business in other industrial sectors including transportation, wine and tobacco, vessels, nuclear energy, and public space markets.

Cautionary Statement Regarding Forward Looking Information

This presentation may contain forward-looking information about China Fire & Security Group, Inc. and its wholly owned subsidiary Sureland which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "project," "plan," "seek," "intend," or "anticipate" or the negative thereof or comparable terminology, and include discussions of strategy, and statements about industry trends and China Fire & Security Groups' future performance, operations and products. This and other "Risk Factors" contained in China Fire & Security Groups' public filings with the SEC.

CHINA FIRE & SECURITY GROUP, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS UNIPRO FINANCIAL SERVICES, INC.)

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
REVENUES				
System contracting projects	\$ 6,105,899	\$ 5,664,761	\$ 23,270,285	\$ 17,353,668
Products	5,188,117	2,225,380	8,827,922	5,366,832
Maintenance services	302,954	152,059	545,410	347,783
Total revenues	<u>11,596,970</u>	<u>8,042,200</u>	<u>32,643,617</u>	<u>23,068,283</u>
COST OF REVENUES				
System contracting projects	2,539,812	2,676,347	10,564,382	8,679,358
Products	2,065,515	1,516,652	3,705,298	2,203,146
Maintenance services	124,211	25,006	181,085	60,501
Total cost of revenues	<u>4,729,538</u>	<u>4,218,005</u>	<u>14,450,765</u>	<u>10,943,005</u>
GROSS PROFIT	6,867,432	3,824,195	18,192,852	12,125,278
OPERATING EXPENSE				
Selling and marketing	1,082,176	1,184,060	2,843,685	2,033,140
General and administrative	1,420,221	1,103,316	3,605,574	2,195,730
Depreciation and amortization	128,394	106,581	387,933	376,359
Research and development	139,205	269,389	457,126	672,909
Total operating expense	<u>2,769,996</u>	<u>2,663,346</u>	<u>7,294,318</u>	<u>5,278,138</u>
INCOME FROM OPERATIONS	4,097,436	1,160,849	10,898,534	6,847,140
OTHER INCOME (EXPENSE)				
Other income	249,537	371,747	577,535	597,231
Other expense	(1,400)	-	(7,817)	-
Interest income	46,462	13,566	90,632	19,646
Interest expense	-	(32,456)	-	(75,475)
Change in fair value of derivative instruments	-	-	1,205,791	-
Total other income (expense)	<u>294,599</u>	<u>352,857</u>	<u>1,866,141</u>	<u>541,402</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	4,392,035	1,513,706	12,764,675	7,388,542
PROVISION FOR INCOME TAXES	-	(17,619)	-	39,181
NET INCOME	4,392,035	1,531,325	12,764,675	7,349,361
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	540,152	210,268	1,350,486	330,945
COMPREHENSIVE INCOME	<u>\$ 4,932,187</u>	<u>\$ 1,741,593</u>	<u>\$ 14,115,161</u>	<u>\$ 7,680,306</u>

BASIC

Weighted average number of shares	<u>27,026,221</u>	<u>24,000,000</u>	<u>26,649,859</u>	<u>24,000,000</u>
Earning per share	<u>\$ 0.16</u>	<u>\$ 0.06</u>	<u>\$ 0.48</u>	<u>\$ 0.31</u>

DILUTED

Weighted average number of shares	<u>27,825,442</u>	<u>24,000,000</u>	<u>27,436,695</u>	<u>24,000,000</u>
Earning per share	<u>\$ 0.16</u>	<u>\$ 0.06</u>	<u>\$ 0.47</u>	<u>\$ 0.31</u>

CHINA FIRE & SECURITY GROUP, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS UNIPRO FINANCIAL SERVICES, INC.)

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2007 AND DECEMBER 31, 2006

<u>ASSETS</u>	September 30, 2007 <u>Unaudited</u>	December 31, 2006 <u> </u>
CURRENT ASSETS:		
Cash	\$ 12,978,897	\$ 9,426,091
Restricted cash	829,534	1,622,833
Accounts receivable, net of allowance for doubtful accounts of \$1,779,084 and \$1,252,947 as of September 30, 2007 and December 31, 2006, respectively	17,129,943	13,211,721
Notes receivable	1,284,242	903,425
Other receivables	1,381,321	875,119
Inventories	4,334,244	4,190,830
Costs and estimated earnings in excess of billings	11,576,823	9,020,122
Employee advances	2,539,279	1,641,138
Employee advances - officers and directors	18,067	7,422
Prepayments and deferred expenses	3,066,828	2,396,571
Total current assets	<u>55,139,178</u>	<u>43,295,272</u>
 PLANT AND EQUIPMENT, net	 <u>4,057,117</u>	 <u>3,529,808</u>
 OTHER ASSETS:		
Accounts receivable - retentions	564,834	383,375
Deferred expenses - non current	19,257	40,830
Advances on building purchases	2,395,369	-
Investment in joint ventures	1,152,077	501,288
Intangible assets, net of accumulated amortization	1,153,888	558,255
Total other assets	<u>5,285,425</u>	<u>1,483,748</u>
 Total assets	 <u>\$ 64,481,720</u>	 <u>\$ 48,308,828</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,893,026	\$ 6,117,733
Customer deposits	4,937,818	2,713,451
Billings in excess of costs and estimated earnings	4,443,456	8,867,624
Other payables	615,571	438,957
Accrued liabilities	2,502,714	1,891,628
Taxes payable	627,072	619,949
Total current liabilities	<u>20,019,657</u>	<u>20,649,342</u>
 FAIR VALUE OF DERIVATIVE INSTRUMENTS	 <u>-</u>	 <u>2,680,811</u>
 COMMITMENTS AND CONTINGENCIES	 <u>-</u>	 <u>-</u>

SHAREHOLDERS' EQUITY:

Common stock, \$0.001 par value, 65,000,000 shares authorized, 27,428,810 shares and 26,461,678 issued and outstanding	27,429	26,462
Additional paid-in-capital	18,760,431	13,393,171
Statutory reserves	3,123,127	3,728,127
Retained earnings	20,135,068	6,765,393
Accumulated other comprehensive income	2,416,008	1,065,522
Total shareholders' equity	<u>44,462,063</u>	<u>24,978,675</u>
Total liabilities and shareholders' equity	<u>\$ 64,481,720</u>	<u>\$ 48,308,828</u>

For more information, please contact:

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China Fire & Security Group
Third Quarter Earnings
Nov 13, 2007

Operator:

Good afternoon, my name is _____ and I will be your conference operator today. At this time I would like to welcome everyone to the China Fire & Security Group Incorporated Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer period. If you would like to pose a question during this time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

It is now my pleasure to turn the floor over to your host, Mr. Robert Yuan, Chief Accounting Officer of China Fire Security Group. Sir, you may begin your conference.

Robert Yuan:

Thank you and welcome everyone to China Fire & Security Group's 2007 third quarter conference call. The press release for this quarter has been distributed to the wire prior to this conference. On our call today is Mr. Brian Lin, Chief Executive Officer of China Fire & Security Group.

Before we get started I'm going to read a disclaimer about forward-looking statements.

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 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 speak only to the date and all oral and written forward-looking statements and are qualified by these cautionary statements. Except as required by law, we assume no obligation to update or revise any forward-looking statements contained in this statement, whether as a result of new information, future events or otherwise.

And now I will turn the call over to Mr. Brian Lin. Brian?

Brian Lin:

Thank you Robert, and thanks to all of the investors joining us today for our third quarter conference call.

We are pleased to report a strong quarter as our quarterly revenue reached a record high with improved margins. We have benefited from the continued industrialization across China where fire protection products and services are mandated for all industrial plants. As a leading industrial fire protection total solution provider, China Fire has enjoyed strong growth in our business across all industrial sectors and with iron and steel in particular.

Before we get to the third quarter financial results, I would like to provide you with a brief review of some recent developments.

In the first half of this year China's Ministry of Construction announced its first national fire protection standards for the Iron & Steel industry. We have witnessed an increase in the market demands for our industrial fire protection products. In the third quarter of this year, we have signed contracts with both existing clients as well as new clients. On September 4, we announced that we successfully extended our current business relationship with our existing clients, Wuhan Iron & Steel and Handan Iron & Steel Group, by securing two new contracts with values of \$4.1 million and \$2.9 million respectively.

As the third largest steel company in China, Wuhan Steel is located in central China's Hubei province with annual product output of over 10 millions tons. Wuhan Steel is spending about \$1.5 Billion for building four new plants during this year and China Fire will provide total fire protection solutions for the first phase (two plants) of Wuhan Steel. In this new contract, our patented products including linear heat detectors (LHD), controllers and water mist systems will be installed. We started our business relationship with Wuhan Steel in 1995 and during the past decade, we have sold products to Wuhan Steel every year for both their new plants as well as retrofitting their older facilities. China Fire is currently reviewing with Wuhan Steel on the fire protection needs of their existing facilities for compliance with the new fire codes.

The new contract win with Handan Steel is another example of how we will take advantage of rising market demand from iron and steel companies as the China's government is tightening its safety regulation and the industry is undergoing its expansion, relocation, and modernization. Handan Steel is one of the top 20 steel companies in China and is expanding into a new region building half a dozen new plants with its initial phase of overall expansion spending about \$1.3 Billion over the next two years. China Fire will be the total solution provider for Handan Steel's fire protection systems. Our proprietary fire protection systems outfitted with our key products will be implemented during the next two years and we are expecting more contract wins from the expansion plans of Handan Steel in the future.

In this quarter we also witnessed strong market growth in industries other than iron and steel, including traditional power generation, petrochemicals, nuclear power generation and transportation industries. During this quarter, more than 50% of the revenue contributions were from non-iron and steel industries. We believe that with more safety regulations, introduced by the Chinese government, in the non-iron and steel industries, China Fire's industrial base will be further expanded and we will capitalize on the benefits from more aspects of China's industrialization. For example, in order to provide more environment-friendly power supplies, the Chinese government has announced its long term plan to build more nuclear plants within China, with plans for two nuclear plants per year in the future. We believe that by leveraging our reputable brand name and strong product development capacity, China Fire is well positioned to benefit significantly from these emerging opportunities.

Also during this quarter, we received the first Purchase Order for our products from a multi-international Fortune-500 company that we can not identify per a confidential partnership agreement signed during the second quarter of 2007. Although the current agreement might not contribute significantly to our business, it demonstrates that China Fire's product development and manufacturing capacity are recognized internationally.

In order to capture additional market opportunities in our industry, we recently opened our new corporate office in downtown Beijing, and located our new Product Marketing and Sales Center, and Merger and Acquisition Center there. The Product Marketing center concentrates on product sales through our distribution channel and partners to tap more potential industrial verticals. The products include our Sureland brand as well as our fire extinguishing products under the TOPSOAR brand. The center will also be responsible for the future expansion of our proprietary product for international markets, especially in countries like India where the industrialization process just started. Our Merger and Acquisition Center is responsible for reviewing fire protection companies both in China as well as worldwide to seek potential M&A opportunities. The industrial fire protection market is very fragmented in China with many regional players and product vendors. We will also look into some foreign fire protection product companies with strong brand names and well established international channels. To support these new initiatives, we have just completed a new company brochure, both in Chinese and English. We will upload the brochure onto our newly designed website www.chinafiresecurity.com.

During this quarter, our R/D team has continued to work closely with central and local governments in drafting new fire safety standards for various industries. We believe that our efforts will reinforce our core competency and create a major long term advantage over our competitors..

As a public company listed on NASDAQ, China Fire has been working diligently to set up an effective and efficient internal control system to guarantee the accuracy of its financial results. Lead by an internal SOA compliance project team and with help from experienced outside consultants, China Fire has been working towards the full compliance with Rule 404 of Sarbanes-Oxley Act.

Before we turn to the discussion of financial results, due to our stronger-than-expected performance in our third quarter, I am pleased to announce an upward revision of our 2007 full year guidance to at least \$16.6 million in GAAP net income from an earlier guidance of \$14.7 million to \$15.0 million, and to at least \$0.60 in fully diluted EPS from an earlier guidance of \$0.53 to \$0.54.

With that brief overview, let me now turn the call over to our Chief Accounting Officer, Robert Yuan. Robert?

Robert Yuan:

Thanks, Brian. I will now review our third quarter results. Our total revenues were approximately \$11.6 million for the third quarter of 2007, as compared to \$8.0 million for the same period of 2006, representing a year-on-year increase of \$3.6 million or 44.2 percent. This increase was mainly attributable to the growth of our product sales and the execution of contracts at bigger value. During this quarter, the revenues from total solution increased 7.8 percent to \$6.1 million, compared to \$5.7 million in the same period of last year. The revenues from product sales increased by 133.1 percent to \$5.2 million, compared to \$2.2 million of last year. During the third quarter, the three largest customers were Maanshan Iron and Steel Group, Sichuan Dongfang Electronic Equipment and PetroChina, which total contributed approximately \$4.9 million of revenue, representing 43.0 percent of total sales.

Cost of revenues for the third quarter was approximately \$4.7 million or 40.8 percent of revenues. During this quarter, the gross margin improved to 59.2 percent, due to the higher revenue contribution from the product sales of the Company's proprietary products, which enjoy higher margins.

Operating expense was approximately \$2.8 million for this quarter, as compared to approximately \$2.7 million of last year. Operating income was approximately \$4.1 million, compared to \$1.2 million for the same period of last year, representing 253.0 percent annual growth. The improvement in operating income was mainly attributable to the increase in revenue and gross margin and our more efficient cost control.

For the third quarter, our reported GAAP net income was \$4.4 million and fully diluted EPS of \$0.16 as compared to \$1.5 million and \$0.06 last year.

For the first three quarters of 2007, our total revenue was approximately \$32.6 as compared to \$23.1 million of year 2006, an increase of approximately \$9.6 million or 41.5 percent. This increase was mainly attributable to the further penetration of the Company's customer base in the iron and steel, power, and petrochemical industries and the execution of more contracts in the period.

Our gross margin for the nine months ended September 30 was 55.7 percent, which is higher than the gross margin of 52.6 percent for the same period of 2006. The increase in gross margin was mainly due to the fact that we used a higher percentage of our proprietary products, which tend to provide higher margins.

Operating expenses were approximately \$7.3 million for the first three quarters, compared to \$5.3 million of last year, an increase of approximately \$2.0 million or 38.2 percent. Operating income was approximately \$10.9 million for the first nine months as compared to approximately \$6.8 million for the first nine months of last year, an increase of \$4.1 million or 59.2 percent. The increase was mainly due to the increase in our revenues and higher gross margin in this period even though we had a significant increase in our operating expenses related to being a public company and related to increasing our sales activities.

Our net income was approximately \$12.8 million for the first three quarter of 2007, as compared to approximately \$7.3 million net income for the same period of last year, an increase of 5.5 million or 73.7 percent. Net profit margin was 39.1 percent, which is higher than the net profit margin of 31.9 percent for the same period of 2006. The reason for the increase in the net income was mainly due to the increase in revenues and operating margin and the non-cash credit of \$1.2 million related to the change in fair value of derivative instruments. Excluding the one-time credit of approximately \$1.2 million from the change in fair value of derivatives, our pro forma net income is \$11.6 million for the first nine months of 2007.

Now, I would like to cover some highlights from our balance sheet and cash flows statement. As of September 30, 2007, China Fire had \$13.0 million in cash and cash equivalents and working capital of \$35.1 million. Our cash flow from operations in first three quarters was positive \$3.2 million. On a quarterly basis, the operating cash flow for the third quarter of 2007 is approximately \$3.3 million as compared to \$0.2 million for the second quarter. The improvement in our operating cash flows is the result of our better management of working capital during the period.

As of September 30, 2007, our total liabilities stood at \$20.0 million, while shareholders' equity totaled \$44.5 million. This compares to total liabilities of \$20.6 million and shareholders' equity of \$25 million on December 31, 2006. Currently we don't carry any long-term or short term bank loans on our balance sheet.

Now, I want to turn the call back to Brian. Brian, please

Thank you, Robert. In conclusion, we are very pleased with our record third quarter results as they exceeded our expectations. We hope that as we look to maintain our leading position in the industry, we will be able to meet our newly raised guidance for 2007 and report another record year. Thank you.

Operator:

At this time I would like to remind everyone if you would like to pose a question, please press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Once again, if you would like to pose a question, that's star, then the number one on your telephone keypad.

Brian:

Thanks everyone. We look forward to seeing you out at upcoming conferences.
