CHINA FIRE & SECURITY GROUP, INC.
Form 10QSB
August 14, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

x Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2007

or

o Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 000-50491

China Fire & Security Group, Inc.
(Name of small business issuer in its charter)

Florida (State or other jurisdiction of incorporation or organization)	65-1193022 (I.R.S. Employer Identification No.)
South Banbidian Industrial Park Liqiao Township, Shunyi District Beijing 101304 People's Republic of China (Address of principal executive offices)	101304 (Zip Code)

Issuer's telephone number: (86-10) 8416 3816.

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes o No x

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

As of June 30, 2007, the Registrant had 26,461,678 shares of common stock outstanding.

China Fire & Security Group, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

	June 30, 2007 Unaudited	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash	$ 8,487,318	$ 9,426,091
Restricted cash	894,494	1,622,833
Accounts receivable, net of allowance for doubtful accounts of $1,496,398 and $1,252,947 as of June 30, 2007 and December 31, 2006, respectively	14,377,790	12,878,665
Accounts receivable - related party	-	333,056
Notes receivable	1,550,911	903,425
Other receivables	1,993,014	785,111
Other receivables - related party	-	90,008
Inventories	4,741,890	4,190,830
Costs and estimated earnings in excess of billings	12,258,012	9,020,122
Employee advances	2,186,930	1,648,560
Prepayments and deferred expenses	2,557,245	2,396,571
Total current assets	49,047,604	43,295,272
PLANT AND EQUIPMENT, net	3,929,627	3,529,808
OTHER ASSETS:		
Accounts receivable - retentions	667,103	383,375
Deferred expenses - non current	-	40,830
Advances on building purchases	896,865	-
Investment in joint ventures	149,910	501,288
Land use rights, net of accumulated amortization	565,797	558,255
Technology rights, net of accumulated amortization	598,599	-
Total other assets	2,878,274	1,483,748
Total assets	$ 55,855,505	$ 48,308,828
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,553,119	$ 5,796,979
Accounts payable - related party	-	320,754
Customer deposits	8,335,538	2,713,451
Billings in excess of costs and estimated earnings	2,331,174	8,867,624

Other payables		826,569		388,434
Other payables - related party		-		50,523
Accrued liabilities		2,898,232		1,891,628
Taxes payable		162,204		619,949
Total current liabilities		20,106,836		20,649,342
DERIVATIVE INSTRUMENT LIABILITIES		-		2,680,811
COMMITMENTS AND CONTINGENCIES		-		-
SHAREHOLDERS' EQUITY:				
Common stock, $0.001 par value, 65,000,000 shares authorized, 26,461,678 shares issued and outstanding		26,462		26,462
Additional paid-in-capital		14,980,191		13,393,171
Statutory reserves		3,123,127		3,728,127
Retained earnings		15,743,033		6,765,393
Accumulated other comprehensive income		1,875,856		1,065,522
Total shareholders' equity		35,748,669		24,978,675
Total liabilities and shareholders' equity	$	55,855,505	$	48,308,828

The accompanying notes are an integral part of these consolidated financial statements.

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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(Unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
REVENUES				
System contracting projects	$ 9,887,878	$ 4,100,476	$ 17,164,386	$ 8,322,758
Products	1,538,049	4,138,369	3,639,805	6,507,601
Maintenance services	121,258	132,888	242,456	195,724
Total revenues	11,547,185	8,371,733	21,046,647	15,026,083
COST OF REVENUES				
System contracting projects	4,379,902	2,092,985	8,024,570	4,748,617
Products	811,081	1,474,627	1,639,783	1,940,888
Maintenance services	46,689	19,014	56,874	35,495
Total cost of revenues	5,237,672	3,586,626	9,721,227	6,725,000
GROSS PROFIT	6,309,513	4,785,107	11,325,420	8,301,083
OPERATING EXPENSE				
Selling and marketing	1,210,100	267,180	1,761,509	849,080
General and administrative	1,174,309	590,685	2,185,353	1,092,414
Depreciation and amortization	133,056	132,889	259,539	269,778
Research and development	267,626	226,548	317,921	403,520
Total operating expense	2,785,091	1,217,302	4,524,322	2,614,792
INCOME FROM OPERATIONS	3,524,422	3,567,805	6,801,098	5,686,291
OTHER INCOME (EXPENSE)				
Other income	323,702	128,091	327,998	225,484
Other expense	(2,146)	-	(6,417)	-
Interest income	24,915	4,372	44,170	6,080
Interest expense	-	(43,019)	-	(43,019)
Change in fair value of derivative instruments	371,628	-	1,205,791	-
Total other income (expense)	718,099	89,444	1,571,542	188,545
INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST	4,242,521	3,657,249	8,372,640	5,874,836
PROVISION FOR INCOME TAXES	-	43,144	-	56,800
	4,242,521	3,614,105	8,372,640	5,818,036

NET INCOME BEFORE MINORITY INTEREST								
MINORITY INTEREST		-		(18,890)		-		-
NET INCOME		4,242,521		3,632,995		8,372,640		5,818,036
OTHER COMPREHENSIVE INCOME								
Foreign currency translation adjustment		514,775		32,993		810,334		120,677
COMPREHENSIVE INCOME	$	4,757,296	$	3,665,988	$	9,182,974	$	5,938,713
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC		26,461,678		24,000,000		26,461,678		24,000,000
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED		27,164,207		24,000,000		27,085,807		24,000,000
EARNING PER SHARE - BASIC	$	0.16	$	0.15	$	0.32	$	0.24
EARNING PER SHARE - DILUTED	$	0.16	$	0.15	$	0.31	$	0.24

The accompanying notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Common Stock		Additional paid-in-	Retained Earnings		Owner contribution	Accumulated other comprehensive	
	Shares	Par value	capital	Statutory reserves	Unrestricted	receivable	income	Totals
BALANCE, December 31, 2005	24,000,000	$ 24,000	$ 6,056,058	$ 3,458,325	$ 65,554	$ (10,087,527)	$ 483,590	$ -
Net income					5,818,036			5,818,036
Cash proceeds from investment in Sureland Equipment Co., Ltd			165,000					165,000
Foreign currency translation adjustment							120,677	120,677
BALANCE, June 30, 2006 (Unaudited)	24,000,000	$ 24,000	$ 6,221,058	$ 3,458,325	$ 5,883,590	$ (10,087,527)	$ 604,267	$ 6,103,713
Net income					1,151,605			1,151,605
Adjustment to statutory reserves				269,802	(269,802)			-
Collection of contribution receivable			4,973			10,087,527		10,092,500
Cash proceeds from investment in Sureland Equipment Co., Ltd			495,000					495,000

Issuance of common stock	2,461,678	2,462	6,028,140					6,030,602
Options issued to employees			644,000					644,000
Foreign currency translation adjustment							461,255	461,255
BALANCE, December 31, 2006	26,461,678	$ 26,462	$ 13,393,171	$ 3,728,127	$ 6,765,393	$ -	$ 1,065,522	$ 24,978,675
Net income					8,372,640			8,372,640
Warrants transferred to additional paid-in capital			1,475,020					1,475,020
Options issued to employees			112,000					112,000
Adjustment from statutory reserves				(605,000)	605,000			-
Foreign currency translation adjustment							810,334	810,334
BALANCE, June 30, 2007 (Unaudited)	26,461,678	$ 26,462	$ 14,980,191	$ 3,123,127	$ 15,743,033	$ -	$ 1,875,856	$ 35,748,669

The accompanying notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(Unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,372,640	$ 5,818,036
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation	268,868	266,542
Amortization	16,881	3,236
Provision for doubtful accounts	208,324	113,497
Loss on disposal of equipment	-	38,119
Compensation expense for options issued to employees	112,000	-
Change in fair value of derivative instruments	(1,205,791)	-
(Increase) decrease in assets:		
Accounts receivable	(1,632,577)	(1,110,952)
Accounts receivable - related party	336,979	-
Notes receivable	(615,734)	790,091
Other receivables	(1,169,318)	(187,291)
Other receivables - related party	91,068	-
Inventories	(437,151)	(896,631)
Costs and estimated earnings in excess of billings	(2,964,789)	(3,719,964)
Employee advances	(489,184)	(271,697)
Prepayments and deferred expenses	(73,909)	(215,405)
Increase (decrease) in liabilities:		
Accounts payable	(287,314)	677,407
Accounts payable - related party	(324,532)	-
Customer deposits	5,476,662	3,089,873
Billings in excess of costs and estimated earnings	(6,672,629)	(890,310)
Other payables	423,280	158,765
Other payables - related party	(51,118)	-
Accrued liabilities	1,008,098	1,592,848
Taxes payable	(453,113)	203,585
Net cash (used in) provided by operating activities	(62,359)	5,459,749
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(709,403)	(182,373)
Advances on building purchases	(884,657)	(231,510)
Purchase of intangible assets	(608,745)	-
Proceeds from sale of equipment	7,183	8,392
Proceeds from sale of investment in Tianjin Fire Safety Equipment Co. Ltd.	507,192	-
Payments for investment in Tianjin Fire Safety Equipment Co. Ltd.	-	(299,711)
Payments for investment in Hubei Sureland Changjiang Fire Safety Technology Co., Ltd.	(147,869)	-
	1,052,986	-

Proceeds from sale of Beijing Zhong Xiao Fire Safety Technology Co., Ltd				
Net cash used in investing activities		(783,313)		(705,202)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Decrease in restricted cash		759,629		32,914
Dividend distributions to original shareholders and minority interest shareholders		-		(7,836,040)
Proceeds from note payables		-		2,496,000
Proceeds from increase in paid-in capital		-		165,000
Payments to Beijing Zhong Xiao Fire Safety Technology Co., Ltd		(2,429,681)		-
Proceeds from Beijing Zhong Xiao Fire Safety Technology Co., Ltd		1,344,316		-
Net cash used in financing activities		(325,736)		(5,142,126)
EFFECTS OF EXCHANGE RATE CHANGE IN CASH		232,635		63,623
DECREASE IN CASH		(938,773)		(323,956)
CASH, beginning of period		9,426,091		2,357,399
CASH, end of period	$	8,487,318	$	2,033,443

The accompanying notes are an integral part of these consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

Note 1 - Background

China Fire & Security Group Inc. (the "Company", formerly known as Unipro Financial Services, Inc. "Unipro"), is a Florida corporation. The Company, through its subsidiaries, is engaged in the design, development, manufacturing and sales of fire protection products and services for industrial customers in China.

On September 1, 2006, the Company signed a Securities Exchange Agreement (the "Agreement") with China Fire Protection Group, Inc. ("CFPG"). Based on the agreement, each CFPG Shareholder agreed to sell, assign, transfer and deliver to Unipro all of the CFPG's ordinary shares of capital stock, par value US $0.01 each (the "CFPG Shares"), in exchange for the issuance by Unipro to each such CFPG Shareholder a pro rata share of 701,538.46 Unipro shares of Series A Convertible Preferred Stock, no par value ("Unipro Preferred"). Each CFPG Shareholder's pro rata share of the Unipro Preferred was determined by multiplying 701,538.46 Unipro Preferred by a fraction, the numerator equaled the total number of CFPG Shares owned by the CFPG Shareholder at the Closing and the denominator was is the total number of CFPG Shares issued and outstanding at the closing. The transaction was completed on October 27, 2006. Prior to closing, CFPG had outstanding options to purchase CFPG shares. The options were converted into 750,000 options to purchase Unipro Common Stock, $0.001 par value ("Common Stock") on the same terms and conditions as the outstanding options. Fractional shares of Unipro Preferred were issued as necessary.

For accounting purpose this transaction was treated as a recapitalization of the CFPG where the CFPG is considered the accounting acquirer. As a result of the reverse acquisition and recapitalization under common control. CFPG's financial statements are presented as the continuing accounting entity. Thus, the historical financial statements of CFPG were recapitalized with the historical equity shares of the Company.

China Fire Protection Group, Inc. ("CFPG") was incorporated in the British Virgin Islands as a limited liability company on June 2, 2006. On June 19, 2006, CFPG entered a sales and purchase agreement with the existing five shareholders ("Original Shareholders") of Sureland Industrial Fire Safety Limited ("Sureland Industrial") who agreed to transfer their 100% ownership in Sureland Industrial to the CFPG. The total purchase consideration was $10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. On July 18, 2006, this transfer was approved by the Beijing Bureau of Commerce, and the registration was completed with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ("PRC"). As a result of this transfer, CFPG became the 100% shareholder of Sureland Industrial. On October 30, 2006, CFPG to transferred 25% ownership in Sureland Industrial to Sureland Industrial Fire Equipment Co., Ltd.

In accordance with laws governing foreign acquisitions of a Chinese registered company, the transfer of $10,087,527 is required to be made within 1 year from the date of issuance of the business license and the transfer were completed in December 2006.

During June and July 2006, the CFPG issued 33,500 shares of common stock to the Original Shareholders in consideration of a promissory note receivable totaling $10,752,500 and the total number of shares outstanding in the Company is 33,500. As a result of this transaction, the Original Shareholders exercised control over the Company.

The purchase of Sureland Industrial and the issuance of CFPG's common stock has been accounted for as a reverse acquisition and recapitalization under common control. The assets and liabilities transferred have been accounted for at historical cost. The consolidated financial statements have been presented as if the acquisition of the subsidiary occurred at the beginning of 2006.

Sureland Industrial Fire Safety Limited ("Sureland Industrial") was established as a Sino-foreign equity joint venture in Beijing, PRC on February 22, 1995. Sureland Industrial and its subsidiaries in China principally engage in the design, development, manufacturing and sale of fire protection products and services for industrial customers in China.

CHINA FIRE & SECURITY GROUP, INC. AND SUBSIDIARIES
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June 30, 2007
(Unaudited)

On June 12, 2006, the Beijing Administration for Industry and Commerce approved the conversion of Sureland Industrial into a limited liability company with registered capital at RMB 50,000,000. On May 17, 2007, the Beijing Shunyi District Business Administration approved the Company to increase registered capital from RMB 50,000,000 to RMB 100,000,000. The Company obtained a new business license on July 2, 2007 which was issued by the Beijing Administration for Industry and Commerce.

Beijing Hua An Times Fire Safety Technology Co., Ltd. ("Beijing Hua An") is a subsidiary of Sureland Industrial established in the PRC as a limited liability company on September 22, 2005 upon its establishment, 80% and 20% of its registered capital were contributed, in cash, by Sureland Industrial and Sureland Creation, respectively. On October 8, 2006, Sureland Industrial and Sureland Creation agreed to transfer the 20% ownership in Beijing Hua An from Sureland Creation to Sureland Industrial, and Sureland Industrial became 100% shareholder of Beijing Hua An.

Sureland Industrial Fire Equipment Co., Ltd. ("Sureland Equipment") was established as a Sino-foreign equity joint venture in Beijing, the People's Republic of China (the PRC) on April 12, 2006 with a registered capital $660,000. Upon its establishment, 75% and 25% of its registered capital were contributed, in cash, by Sureland Industrial and Vyle Investment Inc., respectively. On June 22, 2006, CFPG signed a sales and purchase agreement with the existing two shareholders, Sureland Industrial and Vyle Investment Inc., to become 100% shareholder of Sureland Equipment. The purchase price was based on the registered capital of Sureland Equipment. On August 4, 2006, this transaction was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ("PRC") was completed on August 15, 2006.

Tianjin Tianxiao Fire Safety Equipment Co., Ltd. ("Tianxiao Equipment") was established as a limited liability company in Tianjin, PRC on April 11, 2007 with a registered capital RMB 10,000,000. 100% of its registered capital was contributed, in cash, by Sureland Industrial. Tianxiao Equipment principally engages in the manufacturing and sale of fire protection products and services for industrial customers in China.

Note 2 - Summary of significant accounting policies

The reporting entity

The consolidated financial statements of China Fire & Security Group Inc. and subsidiaries reflect its wholly-owned subsidiaries CFPG, Sureland Industrial, Beijing Hua An, Sureland Equipment, and Tianxiao Equipment.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All material intercompany transactions and balances have been eliminated in consolidation.

Shipping and handling

Costs related to shipping and handlings are included in cost of revenue. The Company accounts for shipping and handling fees and costs in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs."

Revenue recognition

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

1. Revenue from system contracting projects are recognized using the percentage-of-completion method of accounting and, therefore, take into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of the AICPA'S Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction - Type and Certain Production - Type Contracts" ("SOP 81-1").

CHINA FIRE & SECURITY GROUP, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

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

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

In accordance with SFAS 48, "Revenue Recognition when Right of Return Exists," revenue is recorded net of an estimate of markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs.

Almost all of our products (fire detecting products, fire alarm control device, and water mist/sprinkler systems) are sold via system contracting projects or as part of the integrated products sales. The composition of our three types of products varies significantly from project to project, both in quantity and in dollar amounts. Although we could provide a breakdown of sales contribution for our own products for each project, it is almost impossible to provide revenues for each of our products when the revenue from each project is recognized based on percentage of completion. More importantly, the revenues from our own products do not accurately reflect our overall financial performance. The Company is a system contracting projects provider rather than product vendors who sell their own products directly or through channels. Therefore, it is not practical to separately disclose the revenues from external customers for each of our products.

Foreign currency translation

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

Translation adjustments amounted to $1,875,856 and $1,065,522 as of June 30, 2007 and December 31, 2006, respectively. Asset and liability accounts at June 30, 2007 were translated at 7.60 RMB to $1.00 USD as compared to 7.80 RMB at December 31, 2006. Equity accounts were stated at their historical rate. The average translation rates applied to income statements accounts for the six months ended June 30, 2007 and 2006 were 7.71 RMB and 8.02 RMB, respectively. Cash flows are also translated at average translation rates for the period, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

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

CHINA FIRE & SECURITY GROUP, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with 5% residual value. Depreciation expense amount to $145,734 and $132,879 for the three months ended June 30, 2007 and 2006, respectively and $268,868 and $266,542 for the six months ended June 30, 2007 and 2006, respectively.

Estimated useful lives of the assets are as follows:

	Useful Life
Buildings and improvements	40 years
Transportation equipment	5 years
Machinery	10 years
Office equipment	5 years
Furniture	5 years

Construction in progress represents the costs incurred in connection with the construction of buildings or additions to the Company's plant facilities. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service.

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statements of income. Maintenance, repairs and minor renewals are charged directly to expense as incurred. Major additions and betterment to buildings and equipment are capitalized.

Long-term assets of the Company are reviewed annually or more often if circumstances dictate, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company evaluates the periods of depreciation and amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of June 30, 2007, the Company expects these assets to be fully recoverable.

Plant and equipment consist of the following:

	June 30, 2007 Unaudited	December 31, 2006
Buildings and improvements	$ 2,448,732	$ 2,393,171
Transportation equipment	1,971,941	1,678,678
Machinery	860,818	579,708
Office equipment	1,017,744	968,213
Furniture	51,580	33,637
Totals	6,350,815	5,653,407
Less accumulated depreciation	2,421,188	2,123,599
Totals	$ 3,929,627	$ 3,529,808

Use of estimates

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

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

Cash and concentration of risk

Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the People's Republic of China and Singapore. Total cash (including restricted cash balances) in these banks at June 30, 2007 and December 31, 2006, amounted to $9,379,420 and $11,037,830, respectively of which no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

Restricted cash

Restricted cash represents cash required to be deposited in a separate bank account subject to withdrawal restrictions by its system contracting projects and product sales customers to guarantee its contracts will be performed. The deposit cannot be drawn or transferred by the Company until the restriction period has expired. The amounts are $894,494 and $1,622,833 as of June 30, 2007 and December 31, 2006, respectively.

		June 30, 2007 Unaudited		December 31, 2006
Restricted Cash				
Products sales	$	353,000	$	1,210,727
System contracting projects		541,494		412,106
Total Restricted Cash	$	894,494	$	1,622,833

Inventories

Inventories are stated at the lower of cost or market, using weighted average method. Inventories consisted of the followings at:

		June 30, 2007 Unaudited		December 31, 2006
Raw materials	$	297,982	$	150,546
Finished goods		3,791,453		3,770,626
Work in progress		652,455		269,658
Totals	$	4,741,890	$	4,190,830

Raw materials consist primarily of materials used in production. Finished goods consist primarily of equipment used in project contracts. The costs of finished goods include direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling costs are also included in the cost of inventory. The Company reviews its inventories periodically for possible obsolete goods and to determine if any reserves are necessary for potential obsolescence. As of June 30, 2007 and December 31, 2006, the Company determined that no reserves are necessary.

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Accounts receivable

Accounts receivable represents amounts due from customers for products sales, maintenance services and system contracting projects. Overdue balances are reviewed regularly by senior management. Reserves are recorded when collection of amounts due are in doubt.

Accounts receivable consists of the following:

	June 30, 2007 Unaudited	December 31, 2006
Accounts receivable:		
Products sales	$ 7,239,240	$ 6,149,185
Maintenance services	595,717	781,902
System contracting projects	8,706,334	7,583,900
Total accounts receivable	16,541,291	14,514,987
Allowance for bad debts	(1,496,398)	(1,252,947)
Accounts receivable, net	15,044,893	13,262,040
Accounts receivable - non-current retentions	(667,103)	(383,375)
Accounts receivable - currents assets	$ 14,377,790	$ 12,878,665

Costs and estimated earnings in excess of billings

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

	June 30, 2007 Unaudited	December 31, 2006
Contracts costs incurred plus recognized profits less recognized losses to date	$ 36,475,002	$ 25,378,764
Less progress billings	24,216,990	16,358,642
Costs and estimated earnings in excess of billings	$ 12,258,012	$ 9,020,122

Billings in excess of costs and estimated earnings

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

	June 30, 2007 Unaudited	December 31, 2006

Progress billings	$	14,356,452	$	23,129,942
Contracts costs incurred plus recognized profits less recognized losses to date		12,025,278		14,262,318
Billings in excess of costs and estimated earnings	$	2,331,174	$	8,867,624

At June 30, 2007 and December 31, 2006, retentions held by customers of system contracting projects included in the Company's accounts receivable amounted to $2,288,075 and $2,519,128, respectively. These balances represent portions of billings made by the Company but held for payment by the customer pending satisfactory completion of the project. Retention payments are generally collected within one year of the completion of the project.

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Research and development

Research and development expenses include salaries, consultant fees, supplies and materials, as well as costs related to other overhead such as depreciation, facilities, utilities and other departmental expenses. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as incurred as they do not directly relate to any particular licensee, license agreement or licenses fee.

Warranties

Generally, our products are not covered by specific warranty terms. However, our policy is to replace parts if they become defective within one year after deployment at no additional charge. Historically, failure of product parts due to materials or workmanship is rare. Therefore, at June 30, 2007 and December 31, 2006, we made no provision for warranty claims for our products. We continuously evaluate our potential warranty obligation. We will record the expenses related to the warranty obligation when the estimated amount become material at the time revenue is recorded.

Financial instruments

Statement of Financial Accounting Standards No. 107 (SFAS 107), "Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company considers the carrying amount of cash, accounts receivable, other receivables, accounts payable, accrued liabilities and other payables to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. Derivative instruments are carried at fair value, estimated using the Black-Scholes option model.

Intangible assets

Land use rights - All land in the People's Republic of China is owned by the government and cannot be sold to any individual or company. However, the government grants the user "land use rights" to use the land. The Company acquired land use rights in 2001 for a total amount of $635,757. The land use rights expire in 2051. The costs of these rights are being amortized over fifty years using the straight-line method. As of June 30, 2007 and December 31, 2006, accumulated amortization amounted to $125,129 and $115,332, respectively. Amortization expense amounted to $3,386 and $10 for the three months ended June 30, 2007 and 2006, respectively and $6,735 and $3,236 for the six months ended June 30, 2007 and 2006, respectively.

Technology rights - On May 2007, the Company acquired two technology rights to manufacturing fire protection products for $608,745. The costs of these rights are being amortized over ten years using the straight-line method. As of June 30, 2007, accumulated amortization amounted to $10,146. Amortization expense amounted to $10,146 for the three months ended June 30, 2007 and $10,146 for the six months ended June 30, 2007.

Intangible assets of the Company are reviewed annually to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of June 30, 2007, the Company expects these assets to be fully recoverable.

Income taxes

The Company adopted Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (SFAS 109). SFAS 109 requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consist of taxes currently due plus deferred taxes. There are no deferred tax amounts at June 30, 2007 and December 31, 2006.

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The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit.

In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), as of January 1, 2007. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no affect on the Company’s financial statements.

Value Added Tax

Enterprises or individuals who sell products, engage in repair and maintenance or import and export goods in the PRC are subject to a value added tax in accordance with Chinese laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the contract and production of the Company’s finished products can be used to offset the VAT due on sales of the finished product.

VAT on sales and VAT on purchases amounted to $2,626,243 and $2,426,434 for the six months ended June 30, 2007 and $1,985,995 and $1,557,889 for the six months ended June 30, 2006, respectively. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Stock based compensation

The Company has adopted Statement of Financial Accounting Standards No. 123R “Accounting for Stock-Based Compensation” (“SFAS 123R”), which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with SFAS 123R and the Emerging Issues Task Force consensus Issue No. 96-18, "Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services" ("EITF 96-18"), as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

Recently issued accounting pronouncements

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF No. 06-3). EITF No. 06-3 permits that such taxes may be presented on either a gross basis or a net basis as long as that presentation is used consistently. The adoption of EITF No. 06-3 on January 1, 2007 did not impact our consolidated financial statements. We present the taxes within the scope of EITF No. 06-3 on a net basis.

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In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). The Company adopted Interpretation No. 48 on January 1, 2007. (See Note 2)

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 provides a common definition of fair value to be used throughout GAAP which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS No. 157 will be effective for an entity's financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect SFAS No. 157 will have on its consolidated financial position, liquidity, or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities" ("FSP EITF 07-3"), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. The Company is currently evaluating the effect of this pronouncement on financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have no effect on net income or cash flows.

Note 3 - Earnings per share

The Company reports earnings per share in accordance with the provisions of SFAS No. 128, "Earnings per Share." SFAS No. 128 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

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The following is a reconciliation of the basic and diluted earnings per share computation for the three months ended June 30, 2007 and 2006:

	2007 Unaudited	2006 Unaudited
Net income for earnings per share	$ 4,242,521	$ 3,632,995
Weighted average shares used in basic computation	26,461,678	24,000,000
Diluted effect of stock options and warrants	702,529	-
Weighted average shares used in diluted computation	27,164,207	24,000,000
Earnings per share:		
Basic	$ 0.16	$ 0.15
Diluted	$ 0.16	$ 0.15

At June 30, 2007, all stock options outstanding and warrants were included in the three months ended June 30, 2007 calculation of diluted earnings per share.

The following is a reconciliation of the basic and diluted earnings per share computation for the six months ended June 30, 2007 and 2006:

	2007 Unaudited	2006 Unaudited
Net income for earnings per share	$ 8,372,640	$ 5,818,036
Weighted average shares used in basic computation	26,461,678	24,000,000
Diluted effect of stock options and warrants	624,129	-
Weighted average shares used in diluted computation	27,085,807	24,000,000
Earnings per share:		
Basic	$ 0.32	$ 0.24
Diluted	$ 0.31	$ 0.24

At June 30, 2007, all stock options outstanding and warrants were included in the six months ended June 30, 2007 calculation of diluted earnings per share.

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Note 4 - Supplemental disclosure of cash flow information

	Six months ended June 30,	
	2006	2005
	Unaudited	Unaudited
Interest paid	$ -	$ 43,019
Income tax paid	$ -	$ 124,030
Non-cash transactions investing and financing activities:		
Reclassification of warrants liability to paid-in capital upon modification of warrants agreement	$ 1,475,020	$ -

Note 5 - Notes receivable

Notes receivable represents trade accounts receivable due from various customers where the customers' bank has guaranteed the payment of the receivable. This amount is non-interest bearing and is normally paid within three to six months. The Company has the ability to submit their request for payment to the customer's bank earlier than the scheduled payment date. However, the Company will incur an interest charge and a processing fee when they submit the payment request early. The Company's notes receivable totaled $1,550,911 and $903,425 as of June 30, 2007 and December 31, 2006, respectively.

Note 6 - Prepayments and deferred expenses

Prepayments and deferred expenses are monies deposited with or advanced to subcontractors to perform services on System Contracting Projects. Some subcontractors require a certain amount of money to be deposited as a guarantee payment in order for them start performing the services. Prepayments and deferred expenses also include monies deposited or advanced to vendors on future inventory purchases to ensure timely delivery. The total outstanding amount was $2,557,245 and $2,396,571 as of June 30, 2007 and December 31, 2006, respectively.

Note 7 - Customer deposits

Customer deposits represent amounts advanced by customers on products orders, maintenance services deposits and system contracting projects deposits. The product or service normally is shipped or performed within six months after receipt of the advance payment and the related sale is recognized in accordance with the Company's revenue recognition policy. As of June 30, 2007 and December 31, 2006, customer deposits amounted to $8,335,538 and $2,713,451, respectively.

Note 8 - Accrued liabilities

Accrued liabilities represent subcontractors' expenses incurred as of period end for system contracting projects. As of June 30, 2007 and December 31, 2006, accrued liabilities amounted to $2,898,232 and $1,891,628, respectively.

Note 9 - Income taxes

Under the Income Tax Laws of PRC, the Company's subsidiaries are generally subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income reported in the statutory financial statements after appropriate tax adjustments, unless the enterprise is located in a specially designated region where it allows enterprises a three-year income tax exemption and a 50% income tax reduction for the following three years or the enterprise is a manufacturing related joint venture with a foreign enterprise or a wholly owned subsidiary of a foreign enterprise, where it allows enterprises a two-year income tax exemption and a 50% income tax reduction for the following three years.

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In November 2000, with the foreign shareholder transferring all of its ownership in Sureland Industrial to certain PRC nationals and upon the approval of the Beijing Foreign Economic and Trade Commission, Sureland Industrial was converted from a Sino-foreign equity joint venture into a domestic limited liability company. Sureland Industrial itself had been subject to an income tax at an effective rate of 33%.

Under the Income Tax Laws of Beijing State Administration Taxation of PRC, any enterprise with manufacturing operations in the City of Beijing who is a wholly owned subsidiary of a foreign enterprise is subject to income tax rate of 24%.

On July 19, 2006, Sureland Industrial became a wholly owned subsidiary of the Company, a foreign enterprise, and will start enjoying the exemption from January 1, 2007 to December 31, 2008, and is entitled to a 50% deduction of the special income tax rate of 24%, which is a rate of 12% from January 2009 to December 31, 2011.

On August 4, 2006, Sureland Equipment became a wholly owned subsidiary of the Company, a foreign enterprise, and was granted income tax exemption from April 2006 to December 31, 2007, and is entitled to a 50% deduction of the special income tax rate of 24%, which is a rate of 12% from January 2008 to December 31, 2010.

Beijing Hua An were established and registered in the New Technology Enterprise Development Zone, Beijing, PRC and are subject to the rate of 15% and have been certified by the relevant PRC authorities high technology enterprises. However pursuant to approval documents issued by the relevant tax bureau, Beijing Hua An obtained additional tax benefits. Beijing Hua An is exempt from income taxes from January 2006 to December 31, 2008 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 2009 to December 31, 2011.

Tianxiao Equipment has no income taxes exemption and it has an income tax rate of 33% from its establishment.

Beginning January 1, 2008, the new Enterprise Income Tax ("EIT") law will replace the existing laws for Domestic Enterprises ("DES") and Foreign Invested Enterprises ("FIEs").

The key changes are:

a. The new standard EIT rate of 25% will replace the 33% rate currently applicable to both DES and FIEs, except for High Tech companies who pays a reduced rate of 15%;

b. Companies established before March 16, 2007 will continue to enjoy tax holiday treatment approved by local government for a grace period of the next 5 years or until the tax holiday term is completed, whichever is sooner. These companies will pay the standard tax rate as defined in point a above during the grace period.

The Company and its subsidiaries were established before March 16, 2007 and therefore are qualified to continue enjoying the reduced tax rate as described above. Since the detailed guidelines of the new tax law is not publicized yet, the Company can not determined what the new tax rate (15% or 25%) will be applicable to the Company and its subsidiaries after the end of their respective tax holiday terms.

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The provision for income taxes for the three months ended June 30 consisted of the following:

	2007 Unaudited	2006 Unaudited
Provision for China Income Tax	$ -	$ 39,221
Provision for China Local Tax	-	3,923
Total provision for income taxes	$ -	$ 43,144

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three months ended June 30:

	2007 Unaudited	2006 Unaudited
U.S. Statutory rates	34.0%	34.0%
Foreign income not recoginized in USA	(34.0)	(34.0)
China income taxes	33.0	33.0
China income tax exemption	(33.0)	(32.0)
Total provision for income taxes	-%	1.0%

The estimated tax savings for the three months ended June 30, 2007 and 2006 amounted to $1,300,563 and $802,519, respectively. The net effect on basic earnings per share if the income tax had been applied would decrease basic earnings per share for the three months ended June 30, 2007 and 2006 by $0.11 and $0.12, respectively.

The provision for income taxes for the six months ended June 30 consisted of the following:

	2007 Unaudited	2006 Unaudited
Provision for China Income Tax	$ -	$ 51,636
Provision for China Local Tax	-	5,164
Total provision for income taxes	$ -	$ 56,800

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the six months ended June 30:

	2007 Unaudited	2006 Unaudited
U.S. Statutory rates	34.0%	34.0%
Foreign income not recoginized in USA	(34.0)	(34.0)
China income taxes	33.0	33.0
China income tax exemption	(33.0)	(32.0)
Total provision for income taxes	-%	1.0%

The estimated tax savings for the six months ended June 30, 2007 and 2006 amounted to $2,486,028 and $1,538,088, respectively. The net effect on basic earnings per share if the income tax had been applied would decrease basic earnings per share for the six months ended June 30, 2007 and 2006 by $0.22 and $0.18, respectively.

China Fire & Security Group, Inc. was incorporated in the United States and has incurred net operating losses of $47,945 for income tax purposes for the six months ended June 30, 2007. The net operating loss carry forwards for United States income taxes amounted to $1,004,413 which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilize, through 2025, 2026 and 2027. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero. The net change in the valuation allowance for the six month period ended June 30, 2007 was increase of $16,301 and the accumulated valuation allowance as of June 30, 2007 amounted to $341,500. Management will review this valuation allowance periodically and make adjustments as warranted.

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Taxes payable

Taxes payable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 Unaudited	December 31, 2006
VAT taxes payable (credit)	$ (734,049)	$ 47,211
Income taxes payable (refund)		(13,317)
Sales taxes	861,494	541,486
Other taxes payable	34,760	44,569
Total	$ 162,204	$ 619,949

Note 10 - Related party transactions and contingencies

The Company owed $10,087,527 to Sureland Industrial's original shareholders. The amount was paid in December 2006. (See Note 1)

In 2006, Sureland Industrial invested $501,288 into Tianjin Fire Safety Equipment Co., Ltd. ("Tianjin Fire"), for a 19% ownership in Tianjin Fire. On April 2, 2007, Sureland Industrial signed a "sales and purchase agreement" with Beijing Shijihuazhong Company Limited ("Beijing Shijihuazhong") and sold its 19% ownership interest to Beijing Shijihuazhong at the original investment cost.

For the six months ended June 30, 2007 and 2006, Tianjin Fire purchased $106,334 and $0, respectively, of equipment, raw materials, and finished goods from the Sureland Industrial. As of December 31, 2006, the accounts receivable due from Tianjin Fire was $333,056 and other receivable due from Tianjin Fire was $90,008. As of June 30, 2007, Tianjin Fire is no longer a related party to the Company due to the above transaction. Accounts receivable of $536,726 and other receivable of $335,325 due from Tianjin Fire were classified as regular accounts receivable and other receivable in the consolidated financial statements.

Sureland Industrial purchased a total of $527,223 and $0 of raw materials from Tianjin Fire for the six months ended June 30, 2007 and 2006, respectively. As of June 30, 2007 and December 31, 2006, the accounts payable due to Tianjin Fire was $0 and $320,754, respectively. As of June 30, 2007 and December 31, 2006, the other payable due to related parties amounted to $0 and $50,523, respectively. Those amounts were generated from making cash advances by the shareholders for ordinary business expenses. These amounts are unsecured, non interest bearing, and have no fixed terms of repayment.

Note 11 - Current vulnerability due to certain concentrations

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

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The Company has one major customer which represents approximately 23% of the Company's sales for the six months ended June 30, 2007 and 0% of accounts receivable as of June 30, 2007. The Company has two major customers which represents approximately 31% of the Company's sales for the six months ended June 30, 2006.

Note 12 - Retirement plan

The Company and its subsidiaries are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute 20% of its payroll costs to the central pension scheme in 2006 and 2005. The contributions are charged to the income statement of the Company as they become payable in accordance with the rules of the scheme. The aggregate contributions of the Company to retirement benefit schemes amounted to $75,687 and $36,397 for the six months ended June 30, 2007 and 2006, respectively.

Note 13 - Statutory reserves

The laws and regulations of the People's Republic of China require that before an enterprise distributes profits to its partners, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after the statutory reserve. The statutory reserves include surplus reserve fund and the enterprise fund. These statutory reserves represent restricted retained earnings.

Surplus reserve fund

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital.

The transfer to this reserve must be made before distribution of any dividend to shareholders. The company did not make any contribution to this fund for the six months ended June 30, 2007 and 2006. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

On May 17, 2007, the Beijing Shunyi District Business Administration approved the Company to increase registered capital from RMB 50,000,000 to RMB 100,000,000. $605,000 or RMB 5,000,000 was approved by the Beijing Shunyi District Business Administration to be transferred out from this surplus reserve fund as an increase of registered capital.

Enterprise fund

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required and the Company did not make any contribution to this fund for the six months ended June 30, 2007.

Note 14 - Commitments and contingencies

The Company's office lease is under a one year term expiring in December 15, 2007. It is cancelable with three months prior notice. At June 30, 2007, total future minimum lease payments under these operating leases were as follows:

Year Ended December 31,	Amount	
2007	$	13,413
Thereafter		-

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Rent expense amounted to $39,950 and $34,302 for the three months ended June 30, 2007 and 2006, respectively and amounted to $79,899 and $77,889 for the six months ended 30, 2007 and 2006, respectively.

Note 15 - Shareholders' equity

On October 27, 2006, pursuant to a Securities Purchase Agreement dated October 27, 2006 ("SPA"), the Company issued 1,538,600 units of common stock at $3.25 per share, Series A warrants expiring on October 27, 2011 to acquire 307,723 shares at $3.58 per share and Series B warrants expiring on October 27, 2011 to acquire 307,723 shares at $4.88 per share.

On December 5, 2006, under the SPA, the Company issued 923,078 units of common stock at $3.25 per share, Series A warrants expiring on December 5, 2011 to acquire 184,617 shares at $3.58 per share and Series B warrants expiring on December 5, 2011 to acquire 184,617 shares at $4.88 per share.

Warrants

In order for the warrants to be accounted for as equity, the warrants must comply with FAS 133 and EITF 00-19. The Series A and Series B warrant agreements permit the warrant holders under certain circumstances, at their option, to elect to receive an amount in cash equal to the fair value of the warrant calculated in accordance with the Black-Scholes formula. Thus, the warrant holders have rights to a cash payment that are not available to other common stockholders, which fails the test in paragraph 27 of EITF 00-19. The failure of this test therefore results in classification of the warrants to be accounted for as derivative instrument liabilities, rather than as equity instruments. The Company allocates the proceeds received between the issuance of common stock and warrants based upon the fair values on the dates the proceeds were received. The value of the warrants was determined using the Cox-Ross-Rubinstein binomial model using the following assumptions: volatility 75%; risk free interest rate 4.64%; dividend yield of 0% and expected term of 5 years. Net proceeds were allocated as the follows:

Warrants	$	1,110,236
Common stock		6,030,602
Total Net Proceeds	$	7,140,838

Subsequent to the initial recording, the change in the fair value of the warrants, determined under the Cox-Ross-Rubinstein binomial model, at each reporting date will result in either an increase or decrease the amount recorded as liability, based on the fluctuations with the Company's stock price with a corresponding adjustment to other income (or expense).

On April 26, 2007, the Company amended its Series A Warrants and Series B Warrants issued to certain investors on October 27 and December 5, 2006 pursuant to the Securities Purchase Agreement in connection with a private placement (the "Amendment"). The Amendment eliminates the right of the warrant holders to be paid in cash in the event of a merger or other types of reorganization. The warrants no longer need to be accounted for as derivative instrument liabilities. The fair value of the warrants should be transferred to equity on the signing date and no further accounting (i.e., no mark-to-market) is required going forward. As of December 31, 2006, the fair value of the derivative instrument totaled $2,680,811. At April 26, 2007, the Company determined the fair value of the warrants was $1,475,020 using the Cox-Ross-Rubinstein binomial model with the following assumptions: volatility 25%; risk free interest rate 4.59%; dividend yield of 0% and expected term of 4.5 years. A gain of $1,205,791 was recognized in the accompanying income statement based on the decrease in fair value since prior period ended December 31, 2006. On April 26, 2007, the fair value of the warrants was transferred to additional paid-in capital.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

Note 16 - Options issued to employees

On July 1, 2006, CFPG issued 750,000 options to the employees of Sureland Industrial. Fifty percent of the options vest immediately, with the balance vesting evenly each quarter over the following two years.

The Company used the Cox-Ross-Rubinstein binomial model to value the options at the time they were issued, based on the stated exercise prices and expiration dates of the instruments and using a risk-free rate of 5.11%. Because the Company does not have a history of employee stock options, the estimated life is based on one half of the sum of the vesting period and the contractual life of the option. This is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date.

The Company's stock was not traded when the options were granted. Therefore, the Company had to estimate the market value of its shares. There was no significant change in the business between July and October 2006, therefore, the company used the fair value from the October 27 transaction (discussed in Note 15) of $2.26 and took a discount of 30%, to estimate a market price of $1.58. At that market price, the 750,000 employee options had a fair value of approximately $834,000. Because 50% of the options vested immediately, the related compensation expense was recognized as the options vest, rather than on a straight-line basis over the total vesting period, as the amount recognized at any point in time must be at least equal to the portion vested. The expense recognized for the three months and six months ended June 30, 2007 was $47,000 and $112,000, respectively.

Note 17 - Restructuring of subsidiaries

On April 2, 2007, the Company evaluated the operations of its subsidiary, Beijing Zhong Xiao Fire Safety Technology Co., Ltd. ("Beijing Zhong Xiao") and noted efficiencies could be obtained by consolidating the operations of Beijing Zhong Xiao into Sureland Equipment.

Beijing Zhong Xiao was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on March 18, 2003. On April 3, 2007, Sureland Industrial signed an agreement to transfer 100% ownership in Beijing Zhong Xiao to Gong Gang Qiang, a Chinese individual, for consideration price of the net assets of Beijing Zhong Xiao as of March 31, 2007 and received 100% ownership of Beijing Zhong Xiao.

After the restructuring of Beijing Zhong Xiao, the Company still has significant continuing involvement in the historical operations of the manufacturing of fire safety and protection products through Sureland Equipment, which fail the test in paragraph 42 of FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The failure of this test therefore does not require the classification of the restructuring of Beijing Zhong Xiao as discontinued operations.

Note 18 - Subsequent event

On July 18, 2007, the Company invested $1,000,000 for a minority interest in Wan Sent (China) Technology Co., Ltd. ("Wan Sent"), an emerging Chinese fire emergency remote-monitoring system provider based in Beijing.

Item 2. Management's Discussion and Analysis or Plan of Operation

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

Overview

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

Reorganization

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

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

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

On February 9, 2007, Unipro changed its name to China Fire & Security Group, Inc. (CFSG) and started trading on OTC Bulletin Board under its new ticker symbol CFSG.

CFSG owns, through its wholly owned subsidiary China Fire Protection Group, Inc., Sureland Industrial and Sureland Equipment (jointly “Sureland”). Sureland is engaged primarily in the design, development, manufacture and sale in China of a variety of fire safety products for the industrial fire safety market and of design and installation of industrial fire safety systems in which it uses its own fire safety products. To a minor extent, it provides maintenance services for customers of its industrial fire safety systems. Its business is primarily in China, but it has recently begun contract manufacturing products for the export market and it has begun to provide a fire safety system for a Chinese company operating abroad.

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 has also completed projects for highway and railway tunnels, wine distilleries, tobacco warehouses and a nuclear reactor. It is developing its business in the transportation, wine and tobacco, vessels, nuclear energy, and public space markets. Its products can be readily adapted for use on vessels and in exhibition halls and theatres. It plans to expand its marketing efforts to secure business in these industries.

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

Sureland operates sales and liaison offices in more than 20 cities in China.

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

Critical Accounting Policies and Estimates

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

Revenue recognition

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

1. Revenue from system contracting projects are recognized using the percentage-of-completion method of accounting and, therefore, take into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of the AICPA’S Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction - Type and Certain Production - Type Contracts" ("SOP 81-1")

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

3. Revenue from the rendering of Maintenance Services is recognized when such services are provided.

4. Interest income is recognized on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

5. Dividend income is recognized when the shareholders' right to receive payment has been established.

6. Provision is made for foreseeable losses as soon as they are anticipated by management.

7. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract consumers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

Foreign currency translation

The reporting currency of the Company is the US dollar. The Company uses their local currency, Renminbi (RMB), as their functional currency. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Historically, the Company has not entered any currency trading or hedging, although there is no assurance that the Company will not enter into such activities in the future.

Plant and equipment

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

Estimated useful lives of the assets are as follows:

	Useful Life
Buildings and improvement	40 years
Transportation equipment	5 years
Machinery	10 years
Office equipment	5 years
Furniture	5 years

Construction in progress represents the costs incurred in connection with the construction of buildings or new additions to the Company's plant facilities. No depreciation is provided for construction in progress until such time as the assets are completed and are placed into service.

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statements of operations. Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Major additions and betterment to buildings and equipment are capitalized.

Long-term assets of the Company are reviewed annually as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

Use of estimates

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

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

Inventories

Inventories are stated at the lower of cost or market, using the weighted average method. Inventories consist of raw materials, work in progress, finished goods and consumables. Raw materials consist primarily of materials used in production. Finished goods consist primarily of equipment used in project contracts. The cost of finished goods included direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling costs are also included in the cost of inventory. The Company reviews its inventory annually for possible obsolete goods or to determine if any reserves are necessary for potential obsolescence.

Accounts receivable

Accounts receivable represents the products sales, maintenance services and system contracting projects with its customers that were on credit. The credit term is generally for a period of three months for major customers. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

Results of Operations

The following is a schedule showing results of our business..

Three Months Financial Results

Comparison of the three months Ended on June 30, 2007 and 2006:

	Three months ended June 30	
	2007	2006
Revenues	$ 11,547,185	$ 8,371,733
Cost of revenues	5,237,672	3,586,626
Gross Profits	6,309,513	4,785,107
Operating expenses	2,785,091	1,217,302
Income From Operations	3,524,422	3,567,805
Other income(expense)	346,471	89,444
Change in fair value of derivative instruments	371,628	-
Income Before Income Taxes and Minority Interest	4,242,521	3,657,249
Income taxes	-	43,144
Minority interest	-	(18,890)
Net profit (Loss)	4,242,521	3,632,995
Foreign exchange adjustment	514,775	32,993
Comprehensive income	4,757,296	3,665,988
weighted average number of shares-basic	26,461,678	24,000,000
weighted average number of shares-diluted	27,164,207	24,000,000
earning per share-basic	0.16	0.15
earning per share-diluted	0.16	0.15

Total revenues were approximately $11.5 million for the three months ended June 30, 2007 as compared to approximately $8.4 million for the three months ended June 30, 2006, an increase of approximately $3.2 million or 37.9 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 sales contracts in the period. During the three months ended June 30, 2007, the Company fulfilled 106 total solution and product sales contracts as compared to 84 contracts for the three months ended June 30, 2006. In particular, we have a large increase of revenue from our system contract projects which contributes to approximately 85.6 percent of our revenue. The three largest customers were MaAnShan Iron and Steel, JiuQuan Iron and Steel and Hunan HuaRun Power Plant, who collectively contributed approximately $4.9 million of revenue, representing 42.6 percent of our total revenue for this period.

Cost of revenues for the three months ended June 30, 2007 was approximately $5.2 million or 45.4 percent of revenues, as compared to $3.6 million or 42.8 percent of revenues for the three months ended June 30, 2006. Gross margin for the three months ended June 30, 2007 was 54.6 percent, which is lower than the gross margin of 57.2 percent for the same period of 2006. The increase in cost of revenue was mainly due to the fact that we used a higher percentage of third party products which tend to provide a lower margin

Operating expenses were approximately $2.8 million for the three months ended June 30, 2007 as compared to approximately $1.2 million for the three months ended June 30, 2006, an increase of approximately $1.6 million or 128.8 percent. During the second quarter of 2007, the Company increased expenditures in sales-related activities and raised the compensation for management teams to be in line with other US public companies. This increase is also attributable to the increased expenses related to being listed as a public company in the United States.

Operating income was approximately $3.5 million for the three months ended June 30, 2007 as compared to approximately $3.6 million for the three months ended June 30, 2006. The reason operating income did not increase despite that total revenue increased by $3.2 million was that operating expenses increased due to the reasons as stated above.

Total other income was approximately $0.7 million for the three months ended June 30, 2007 as compared to approximately $0.09 million for the three months ended June 30, 2006. This increase in total other income is primarily due to the increase from the change in fair value of derivative and the increase in other income, which is primarily composed of income from our sales of design service and government’s tax rebate for our software revenue. On May 3, 2007, the Company and warrant holders agreed to make an amendment to their Securities Purchase Agreement. As a result, we will not have the entry of “Change in fair value of derivative” on the income statements for the third quarter of 2007 and onwards.

Our net income was approximately $4.2 million for the three months ended June 30, 2007 as compared to approximately $3.6 million net income for the three months ended June 30, 2006, an increase of $0.6 million or 16.8 percent. Net profit margin for the three months ended June 30, 2007 was 36.7 percent, which is lower than the net profit margin of 43.4 percent for the same period of 2006. The reason for higher net profit margin in the second quarter of 2006 is mainly due to much lower operating expenses as a private company. Excluding the one-time credit of approximately $0.4 million from the change in fair value of derivatives, our net profit margin is 33.5 percent for the three months ended June 30, 2007.

Currency translation adjustments resulting from this process amounted to $514,775 and $32,993 as of the three months ended June 30, 2007 and 2006, respectively. The balance sheet amounts with the exception of equity at June 30, 2007 were translated at 7.60 RMB to 1.00 USD as compared to 7.80 RMB at December 31, 2006. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the three months ended June 30, 2007, and 2006 were 7.71 RMB and 8.02 RMB, respectively.

The comprehensive income, which adds the currency adjustment to the net income, were approximately $4.8 million for the three months ended June 30, 2007 as compared to approximately $3.7 million comprehensive income for the three months ended June 30, 2006, a increase of $ 1.1 million or 29.8 percent.

Six Months Financial Results

Comparison of the six months Ended on June 30, 2007 and 2006

	Six months ended June 30			
		2007		2006
Revenues	$	21,046,647	$	15,026,083
Cost of revenues		9,721,227		6,725,000
Gross Profits		11,325,420		8,301,083
Operating expenses		4,524,322		2,614,792
Income From Operations		6,801,098		5,686,291
Other income(expense)		365,751		188,545
Change in fair value of derivative instruments		1,205,791		-
Income Before Income Taxes and Minority Interest		8,372,640		5,874,836
Income taxes		-		56,800
Minority interest		-		-
Net profit (Loss)		8,372,640		5,818,036
Foreign exchange adjustment		810,334		120,677
Comprehensive income		9,182,974		5,938,713
weighted average number of shares-basic		26,461,678		24,000,000
weighted average number of shares-diluted		27,085,807		24,000,000
earning per share-basic		0.32		0.24
earning per share-diluted		0.31		0.24

Total revenues were approximately $21.0 million for the six months ended June 30, 2007 as compared to approximately $15.0 million for the six months ended June 30, 2006, an increase of approximately $6.0 million or 40.0 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 sales contracts in the period. During the six months ended June 30, 2007, the Company fulfilled 155 total solution and product sales contracts as compared to 114 contracts for the six months ended June 30, 2006. In particular, we have a large increase of revenue from our system contract projects which contributes to approximately 81.6 percent of our revenue. The three largest customers were MaAnShan Iron and Steel, JiuQuan Iron and Steel, and AnShan Iron and Steel, who collectively contributed approximately $7.9 million of revenue, representing 37.4 percent of our total revenue for this period.

Cost of revenues for the six months ended June 30, 2007 was approximately $9.7 million or 46.2 percent of revenues, as compared to $6.7 million or 44.8 percent of revenues for the six months ended June 30, 2006. Gross margin for the six months ended June 30, 2007 was 53.8 percent, which is lower than the gross margin of 55.2 percent for the same period of 2006. The increase in cost of revenue was mainly due to the fact that we used a higher percentage of third party products which tend to provide a lower margin

Operating expenses were approximately $4.5 million for the six months ended June 30, 2007 as compared to approximately $2.6 million for the six months ended June 30, 2006, an increase of approximately $1.9 million or 73.0 percent. During the first half year of 2007, the Company increased expenditures in sales-related activities and raised the compensation for management teams to be in line with other US public companies. This increase is also attributable to the increased expenses related to being listed as a public company in the United States.

Operating income was approximately $6.8 million for the three months ended June 30, 2007 as compared to approximately $5.7 million for the three months ended June 30, 2006, an increase of $1.1 million or19.6 percent. The increase was mainly due to the increase in our revenues 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.

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Total other income was approximately $1.6 million for the six months ended June 30, 2007 as compared to approximately $0.2 million for the six months ended June 30, 2006. This increase in total other income is primarily due to the increase from the change in fair value of derivative and the increase in other income, which is primarily composed of income from our sales of design service and government's tax rebate for our software revenue. On May 3, 2007, the Company and warrant holders agreed to make an amendment to the Securities Purchase Agreement. As a result, we will not have the entry of "Change in fair value of derivative" on the income statements for the third quarter of 2007 and onwards.

Our net income was approximately $8.4 million for the six months ended June 30, 2007 as compared to approximately $5.8 million net income for the six months ended June 30, 2006, an increase of 2.6 million or 43.9 percent. Net profit margin for the six months ended June 30, 2007 was 39.8 percent, which is higher than the net profit margin of 38.7 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 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 net profit margin is 34.1 percent for the six months ended June 30, 2007.

Currency translation adjustments resulting from this process amounted to $810,334 and $120,677 as of the six months ended June 30, 2007 and 2006, respectively.

The comprehensive income, which adds the currency adjustment to the net income, were approximately $9.2 million for the six months ended June 30, 2007 as compared to approximately $5.9 million comprehensive income for the six months ended June 30, 2006, a increase of $3.2 million or 54.6 percent.

Income Taxes

We are not paying any United States and the British Virgin Islands income taxes as we do not have any taxable activities in the United States and the British Virgin Islands. Under the Income Tax Laws of PRC, a company is generally subject to an income tax at an effective rate of 33 percent (30 percent state income taxes plus 3 percent local income taxes) on income reported in the statutory financial statements after appropriate tax adjustments with the following "tax holidays":

1. If the enterprise is located in a specially designated region (New Technology Enterprise Development Zone), it enjoys a three-year income tax exemption and a 50 percent income tax reduction for the following three years.

2. If the enterprise is a manufacturing related joint venture with a foreign enterprises or a wholly owned subsidiary of a foreign enterprise, it enjoys a two-year income tax exemption from the year that it is profitable and a 50 percent income tax reduction for the following three years.

Sureland Industrial has been a domestic limited liability company since November 2000 and has been subject to an income tax at an effective rate of 33 percent. However, since July 19, 2006, Sureland Industrial becomes a wholly owned subsidiary of China Fire Protection Group Limited, a foreign enterprise, and will start enjoying the special income tax rate of 24 percent from 2006, and tax exemption from 2007 to 2008, and is entitled to a 50 percent deduction of the special income tax rate of 24 percent which is a rate of 12 percent from January 2009 to December 31, 2011. Sureland Equipment started enjoying the special income tax rate of 24 percent from 2006 and was granted income tax exempt in the period between April 2006 and December 31, 2007 and is entitled to a 50 percent deduction of the special income tax rate of 24 percent which is a rate of 12 percent from January 2008 to December 31, 2010.

The following subsidiaries of Sureland Industrial were established and registered in the New Technology Enterprise Development Zone, Beijing, PRC and are subject to the rate of 15 percent and have been certified by the relevant PRC authorities high technology enterprises. However pursuant to approval documents issued by the relevant tax bureau, all the subsidiaries have obtained the following additional tax benefits:

- Beijing HuaAn was granted income tax exempt in the period between January 2006 and December 31, 2008 and is entitled to a 50 percent deduction of the special income tax rate of 15 percent which is a rate of 7.5 percent from January 2009 to December 31, 2011.

Beginning January 1, 2008, the new Enterprise Income Tax (“EIT”) law will replace the existing laws for Domestic Enterprises (“DES”) and Foreign Invested Enterprises (“FIEs”).

The key changes are:

- The new standard EIT rate of 25% will replace the 33% rate currently applicable to both DES and FIEs, except for High Tech companies who pays a reduced rate of 15%;

- Companies established before March 16, 2007 will continue to enjoy tax holiday treatment approved by local government for a grace period of either for the next 5 years or until the tax holiday term is completed, whichever is sooner. These companies will pay the standard tax rate as defined in point a above when the grace period.

The Company and its subsidiaries were established before March 16, 2007 and therefore are qualified to continue enjoying the reduced tax rate as described before. Since the detailed guidelines of the new tax law is not publicized yet, the Company can not determined what the new tax rate will be applicable to the Company and its subsidiaries after the end of their respective tax holiday terms.

The provision for income taxes for the three months ended June 30 consisted of the following:

	2007	2006
Provision for China Income Tax	$ -	$ 39,221
Provision for China Local Tax	-	3,923
Total provision for income taxes	$ -	$ 43,144

The provision for income taxes for the six months ended June 30 consisted of the following:

	2007	2006
Provision for China Income Tax	$ -	$ 51,636
Provision for China Local Tax	-	5,164
Total provision for income taxes	$ -	$ 56,800

Liquidity and Capital Resources

As of June 30, 2007, we had working capital of $28.9 million including cash and cash equivalents of $8.5 million. The following table sets forth a summary of our cash flows for the periods indicated:

Statement of Cash Flow

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net cash provided by (used in) operating activities	$ (62,359)	$ 5,459,749
Net cash (used in) investing activities	(783,313)	(705,202)
Net cash provided by financing activities	(325,736)	(5,142,126)
Effect of foreign currency translation on cash and cash equivalents	232,635	63,623
Net cash flow	$ (938,773)	$ (323,956)

Operating Activities

Net cash used in operating activities was approximately $0.1 million for the six months ended June 30, 2007 as compared to approximately $5.5 million net cash provided by operating activities for the same period in 2006. Net cash used by operating activities in the six months ended June 30, 2007 was mainly due to net income of $8.4 million, a $5.5 million increase in customer deposits and a $1.0 million increase in accrued liabilities offset by a $1.6 million increase in account receivable, a $1.2 million increase in other receivables, a $3.0 million increase in costs and estimated earnings in excess of billings and $6.7 million decrease in billings in excess of costs and estimated earnings. The increase of $3.0 million in costs and estimated earnings in excess of billings is mainly due to the increased number of projects where we have billed the customers more than we have recognized revenues for these projects, while the decrease of $6.7 million in billings in excess of costs and estimated earnings is mainly due to the decreased number of projects where we have billed the customers less than we have recognized revenues for these projects.

On a quarterly basis, the operating cash flow for the second quarter of 2007 is approximately positive $0.2 million as compared to approximately negative $0.3 million for the first quarter of 2007, which is the result of better management of our working capital during the period.

Investing Activities

Net cash used in investing activities in the six months ended June 30, 2007 was $0.8 million, which is an increase of $0.1 million from net cash used in investing activities of $0.7 million in the same period of 2006. Net cash used in investing activities was mainly attributable to $0.7 million used to purchase equipment, $0.9 million used to purchase office buildings, $0.6 million used to purchase intellectual properties offset by $0.5 million proceeds from the sale of investment in Tianjin Fire Safety Equipment Co. Ltd. and $1.1 million proceeds from the restructure in Beijing Zhong Xiao.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2007 totaled $0.3 million as compared to $5.1 million used by financing activities in the same period of 2006. The increase of the cash used in financing activities was attributable to $2.4 million payment to Beijing Zhong Xiao to clear the balance between our Company and Beijing Zhong Xiao offset by a $0.8 million decrease in restricted cash, which represents the cash required to be deposited in the bank to guarantee the execution of signed contracts, and $1.3 million payment from Beijing Zhong Xiao to clear the balance between Beijing Hua An and Beijing Zhong Xiao.

As a result of the total cash activities, net cash decreased $0.9 million from December 31, 2006 to June 30, 2007. We believe that our currently available working capital of $28.9 million including cash and cash equivalents of $8.5 million should be adequate to sustain our operations at our current levels and our anticipated expansion through at least the next twelve months.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Item 3. Controls and Procedures.

a) *Evaluation of Disclosure Controls.* Brian Lin, who is our Chief Executive Officer and Principal Accounting Officer evaluated the effectiveness of our disclosure controls and procedures as of the end of our second fiscal quarter 2007 pursuant to Rule 13a-15(b) of the Securities and Exchange Act. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, as appropriate to allow timely decisions regarding required disclosure. Based on his evaluation, Mr. Lin concluded that our disclosure controls and procedures were effective as of June 30, 2007.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our management team will continue to evaluate our internal control over financial reporting in 2007 as we implement our Sarbanes Oxley testing.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

On April 18, 2007, the board of directors of the Company adopted and approved an increase of the base annual salaries for its senior executives to be more in line with other US listed companies of comparable market capitalization and industries, retroactive as of January 1, 2007, as set forth below:

Brian Lin, Chief Executive Officer, US$120,000;
Gangjin Li, Chairman of the board, US$80,000
Tieying Guo, President, Sureland Industrial Fire Safety Limited, US$80,000

Item 6. Exhibits

The following exhibits are hereby filed as part of this Quarterly Report on Form 10-QSB.

Exhibit Number:	Description
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
33.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant certifies that it has duly caused this Annual Report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized, in Beijing, on August 14, 2007.

CHINA FIRE & SECURITY GROUP, INC.

By: /s/ Brian Lin

Brian Lin
Chief Executive Officer, Principal Accounting Officer