

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

Form S-1/A

May 07, 2007

As filed with the Securities and Exchange Commission on May 7, 2007

Registration No. 333-138166

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

**FORM S-1/A
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933**

POST-EFFECTIVE AMENDMENT NO. 1

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	3699	98-0509431
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement the same offering.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

PROSPECTUS

Subject to completion, dated , 2007

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

2,333,334 Shares of Common Stock

This prospectus relates to 2,333,334 shares of common stock of China Security & Surveillance Technology, Inc., a Delaware corporation, that may be sold from time to time by the selling stockholders named in this prospectus. We will not receive any proceeds from the sales by the selling stockholders.

Common stock of China Security and Surveillance Technology Inc. is quoted on the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. under the symbol "CSCT.OB". The closing sales price for its common stock on May 2, 2007 was \$15.50 per share, as reported on the OTC Bulletin Board. You are urged to obtain current market quotations of our common stock before purchasing any of the shares being offered for sale pursuant to this prospectus.

Any selling stockholders who are affiliates of broker-dealers and any participating broker-dealers are deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such selling stockholders who are affiliates of broker-dealers and any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Investing in the shares being offered pursuant to this prospectus involves a high degree of risk. You should carefully read and consider the information set forth in the section of this prospectus titled "Risk Factors," beginning on page 6, when determining whether to purchase any of these shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 2007.

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PROSPECTUS SUMMARY

This summary highlights some information from this prospectus, and it may not contain all of the information that is important to you. You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering, including “Risk Factors” and our financial statements and related notes, included elsewhere in, or incorporated by reference into, this prospectus.

Except as otherwise indicated by the context, references in this prospectus to “CSST,” “we,” “us,” “our,” “our Company,” or “Company” are to China Security & Surveillance Technology, Inc., a Delaware corporation and its direct and indirect subsidiaries. Unless the context otherwise requires, all references to (i) “Safetech” are to China Safetech Holdings Limited, a British Virgin Islands corporation; (ii) “CSST HK” are to China Security & Surveillance Technology (HK) Ltd., a Hong Kong corporation; (iii) “CSST China” are to China Security & Surveillance Technology (PRC) Ltd., a corporation incorporated in the People’s Republic of China; (iv) “Golden” are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People’s Republic of China; (v) “Cheng Feng” are to Shanghai Cheng Feng Digital Technology Co. Ltd.; (vi) “Hongtianzhi” are to Shenzhen Hongtianzhi Electronics Co., Ltd; (vii) “BVI” are to British Virgin Islands; (viii) “PRC” and “China” are to People’s Republic of China; (ix) “U.S. dollar,” “\$” and “US\$” are to United States dollars; (x) “RMB” are to Yuan Renminbi of China; (xi) “Securities Act” are to Securities Act of 1933, as amended; and (xii) “Exchange Act” are to the Securities Exchange Act of 1934, as amended.

The Company

Overview

We manufacture, distribute, install and service security and surveillance products and systems and develop security and surveillance related software in China. Our customers mainly comprise (i) governmental entities (including customs agencies, courts, public security bureaus and prisons), (ii) non-profit organizations (including schools, museums, sports arenas and libraries) and (iii) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues). These account for approximately 40%, 10% and 50% of revenues, respectively.

A majority of our revenues is derived from the provision of a packaged security and surveillance solution which includes the products, installation and after sale service maintenance to our customers. Because a majority of our revenues is derived from the installation of security and surveillance systems for our customers which are generally non-recurring, our revenues are not concentrated within any one customer or group of customers. Maintenance services in our packaged solution are included for the first year from the date of completion. Our customers have an option to sign up for our maintenance program after the first year.

Our subsidiary Golden has 37 branch offices in provincial cities, Cheng Feng has 22 distribution points and Hongtianzhi has 53 distribution points throughout China as our customers are located across the country without any particular concentration in any region.

Our Background and History

We were incorporated in the BVI on April 8, 2002 under the name “Apex Wealth Enterprises Limited” as a corporation under the International Business Companies Ordinance of 1984. In February 2006, we changed our name to China Security and Surveillance Technology Inc. In November 2006, we changed our domicile from the BVI to Delaware by merging the BVI corporation into a newly incorporated Delaware corporation. Prior to our reverse acquisition of Safetech in September 2005, as discussed in more detail below, we were a development stage enterprise and had not yet generated any revenues. Prior to the reverse acquisition, we provided business advisory and management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the reverse acquisition, our business became the business of our indirect, wholly-owned subsidiary, Golden and the newly acquired subsidiaries Cheng Feng and Hongtianzhi. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. In 2006, we acquired Cheng Feng, a corporation incorporated in the PRC which is engaged in the business of manufacturing, marketing and sales of security and surveillance related hardware as well as the development and integration of related software. In April 2007, we acquired Hongtianzhi, a corporation incorporated in the PRC which is engaged in the business of manufacturing digital cameras. We are headquartered in Shenzhen, China.

Reverse Acquisition with Safetech

On September 12, 2005, we acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of our common stock. As a result of this transaction, Safetech became our wholly-owned subsidiary, and Golden became our indirect wholly-owned subsidiary. Completion of the transaction resulted in a change in control of our Company.

For accounting purposes, this transaction was treated as a reverse acquisition, with Safetech as the acquirer and our Company as the acquired party. When we refer in this prospectus to business and financial information for periods prior to the consummation of the reverse acquisition, we are referring to the business and financial information of our operating PRC subsidiaries on a consolidated basis unless otherwise specified.

Subsequent Acquisitions

On October 25, 2005, we entered into an agreement with the equity owners of Shenzhen Yuan Da Wei Shi Technology Limited, or “Yuan Da,” which was subsequently amended in April and May 2006. Pursuant to the amended agreement, we acquired all of the assets of Yuan Da for RMB 1 million (approximately \$0.125 million) and 200,000 shares of our common stock. Yuan Da is a limited liability company established in Shenzhen, China and was principally engaged in the sale and development of security and surveillance systems.

In July 2006, we entered into an agreement with shareholders of Cheng Feng to acquire 100% ownership of Cheng Feng for a consideration of RMB 120 million (approximately \$15 million),

consisting of RMB 60 million (approximately \$7.5 million) in cash and 1,361,748 shares of our common stock. The operational control of Cheng Feng passed to the Company in July 2006, we received the relevant Chinese government approval for such acquisition in December 2006 and all consideration to Cheng Feng has been paid off as of the date of this prospectus. Cheng Feng is a company that is engaged in the business of manufacturing, marketing and sales of security and surveillance related hardware as well as the development and integration of related software.

In November 2006, we acquired the security and surveillance business of Jian Golden An Ke Technology Co. Ltd., or “Jian An Ke,” Shenzhen Golden Guangdian Technology Co. Ltd., or “Shenzhen Guangdian,” Shenyang Golden Digital Technology Co. Ltd., or “Shenyang Golden,” and Jiangxi Golden Digital Technology Co. Ltd., or “Jiangxi Golden,” of which our CEO and director Guoshen Tu owned 80%, 60%, 42% and 90%, respectively. We refer to these companies in this prospectus as the Four-Related Companies. Mr. Tu did not receive any consideration for the acquisition of his interest in the Four-Related Companies. The minority shareholders of these four companies and their designees received in aggregate 850,000 shares of our common stock. Shenzhen Guangdian is engaged in the business of manufacturing and distributing security and surveillance products. The other three companies are engaged in the business of distributing security and surveillance products.

On April 2, 2007, we entered into an Equity Transfer Agreement with Safetech and Zheng Huang, the sole owner of Chain Star Investments Limited, a Hong Kong Corporation, or “Chain Star,” pursuant to which Safetech purchased 100% ownership of Chain Star from Mr. Huang. Chain Star is a holding company of Hongtianshi. Pursuant to the terms of the Equity Transfer Agreement, we will pay a total consideration of RMB 250 million (approximately \$32.1 million) in exchange for 100% ownership of Chain Star, consisting of RMB 125 million (approximately USD\$16 million) in cash and RMB 125 million (approximately \$16 million) in the Company’s shares of common stock.

The Offering

Common stock offered by selling stockholders	2,333,334 shares
Common stock outstanding before the offering	34,941,406 shares ⁽¹⁾
Common stock outstanding after the offering	34,941,406 shares ⁽¹⁾
Proceeds to us	We will not receive any proceeds from the sale of common stock covered by this prospectus.

(1) Represents the number of shares outstanding on May 2, 2007

Summary Consolidated Financial Data

The following summary consolidated statement of income and comprehensive income data for the years ended December 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005 and 2006 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the year ended December 31, 2003 and the summary balance sheet data as of December 31, 2004 are derived from our audited consolidated financial statements not included in this prospectus. The summary consolidated financial data for the year ended December 31, 2002 is derived from our unaudited consolidated financial statements that are not included in this prospectus.

The following summary consolidated financial information should be read in conjunction with our consolidated financial statements and related notes and the information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” appearing elsewhere in this prospectus. Our historical results are not necessarily indicative of our results for any future periods.

(in thousands of U.S. dollars, except per share data)

	2006	2005	2004	2003	2002
Statement of Income Data					
Revenues	\$ 106,989	\$ 32,689	\$ 16,056	\$ 11,795	\$ 10,331
Cost of Sales	\$ 75,976	\$ 23,473	\$ 8,796	\$ 7,581	\$ 7,030
Operating Expenses	\$ 5,779	\$ 1,737	\$ 1,129	\$ 952	\$ 1,097
Income From Operations	\$ 25,342	\$ 7,479	\$ 6,131	\$ 3,262	\$ 2,234
Income Taxes	\$ 3,889	\$ 780	\$ 873	\$ 517	\$ 335
Net Income	\$ 22,931	\$ 7,266	\$ 5,724	\$ 2,752	\$ 1,899
Number of Shares Issued and Outstanding	31,824,938	21,558,000	17,000,000	17,000,000	17,000,000
Income from Operations Per Share					
Basic	\$ 0.97	\$ 0.40	\$ 0.36	\$ 0.19	\$ 0.13
Diluted	\$ 0.94	\$ 0.40	\$ 0.36	\$ 0.19	\$ 0.13
Weighted Average Number of Shares Outstanding					
Basic	26,052,519	18,521,479	17,000,000	17,000,000	17,000,000
Diluted	26,940,215	18,521,479	17,000,000	17,000,000	17,000,000
Net Income Per Share					
Basic	\$ 0.88	\$ 0.39	\$ 0.34	\$ 0.16	\$ 0.11
Diluted	\$ 0.85	\$ 0.39	\$ 0.34	\$ 0.16	\$ 0.11

Balance Sheet Data

Working Capital	\$	63,535	\$	20,546	\$	8,494	\$	7,918	\$	5,591
Total Assets	\$	114,527	\$	29,117	\$	22,009	\$	16,977	\$	13,582
Total Current Liabilities	\$	22,604	\$	4,505	\$	5,208	\$	5,900	\$	4,126
Net Assets	\$	89,820	\$	24,612	\$	16,801	\$	11,077	\$	9,455
Total Shareholders' Equity	\$	89,820	\$	24,612	\$	16,801	\$	11,077	\$	8,850

Risk Factors

We face risks in operating our business, including risks that may prevent us from achieving our business objectives or that may adversely affect our business, financial condition and operating results. You should consider these risks before investing in our Company. Risks relating to our business and industry include, among others: our ability to attract new customers; our ability to keep pace with technological developments in the security and surveillance industry, and to develop and commercialize new products; competition and competitive factors in the markets in which we compete; and our ability to successfully integrate companies that we have acquired and to avoid or mitigate potential damages arising from risks associated with acquired companies and the legal structure utilized to effectuate acquisitions of these companies. You should carefully consider the risks discussed in “RISK FACTORS” before deciding to invest in our common stock.

Additional Information

Our corporate headquarters are located at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen, Peoples Republic of China, 518034. Our telephone number is (86) 755-8351-0888. We maintain a website at www.csstf.com that contains information about our Company, but that information is not a part of this prospectus.

RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this prospectus before deciding to invest in shares of our common stock being offered for resale by the selling stockholders. If any of the events or developments described below actually occurs, our business, financial condition, and results of operations may suffer. In that case, the trading price of our common stock may decline and you could lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

DUE TO THE NATURE OF OUR BUSINESS, WE DO NOT HAVE SIGNIFICANT AMOUNTS OF RECURRING REVENUES FROM OUR EXISTING CUSTOMERS AND WE ARE HIGHLY DEPENDENT ON NEW BUSINESS DEVELOPMENT.

Most of our revenues derive from the installation of security and surveillance systems which are generally non-recurring. Our customers are mainly governmental entities, non-profit organizations and commercial entities, such as airports, customs agencies, hotels, real estate developments, banks, mines, railways, supermarkets, and entertainment enterprises. We manufacture and install security systems for these customers and generate revenues from the sale of these systems to our customers and, to a lesser extent, from maintenance of these systems for our customers. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenues from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has additional installation sites for which our services might be required. Therefore, in order to maintain a level of revenues each year that is at or in excess of the level of revenues we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to increase our revenues and earnings or even sustain current levels in the future.

IN ORDER TO GROW AT THE PACE EXPECTED BY MANAGEMENT, WE WILL REQUIRE ADDITIONAL CAPITAL TO SUPPORT OUR LONG-TERM BUSINESS PLAN. IF WE ARE UNABLE TO OBTAIN ADDITIONAL CAPITAL IN FUTURE YEARS, WE MAY BE UNABLE TO PROCEED WITH OUR LONG-TERM BUSINESS PLAN AND WE MAY BE FORCED TO CURTAIL OR CEASE OUR OPERATIONS.

We will require additional working capital to support our long-term business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, so as to enhance the overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to

competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

WE SOMETIMES EXTEND CREDIT TO OUR CUSTOMERS. FAILURE TO COLLECT THE TRADE RECEIVABLES OR UNTIMELY COLLECTION COULD AFFECT OUR LIQUIDITY.

We extend credit to a large number of our customers while generally requiring no collateral. Generally, our customers pay in installments, with a portion of the payment upfront, a portion of the payment upon receipt of our products by our customers and before the installation, and a portion of the payment after the installation of our products and upon satisfaction of our customer. Sometimes, a small portion of the payment will not be paid until after a certain period following the installation. We perform ongoing credit evaluations of our customers' financial condition and generally have no difficulties in collecting our payments. However, if we encounter future problems collecting amounts due from our clients or if we experience delays in the collection of amounts due from our clients, our liquidity could be negatively affected.

IF OUR SUBCONTRACTORS FAIL TO PERFORM THEIR CONTRACTUAL OBLIGATIONS, OUR ABILITY TO PROVIDE SERVICES AND PRODUCTS TO OUR CUSTOMERS, AS WELL AS OUR ABILITY TO OBTAIN FUTURE BUSINESS, MAY BE HARMED.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by those subcontractors. A failure by one or more of our subcontractors to satisfactorily perform the agreed-upon services may materially and adversely impact our ability to perform our obligations to our customers, could expose us to liability and could have a material adverse effect on our ability to compete for future contracts and orders.

IF WE ARE UNABLE TO ATTRACT AND RETAIN KEY SENIOR MANAGEMENT AND QUALIFIED TECHNICAL AND SALES PERSONNEL, OUR OPERATIONS, FINANCIAL CONDITION AND PROSPECTS WILL BE MATERIALLY ADVERSELY AFFECTED.

Our future success depends in part on the contributions of our management team and key technical and sales personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our CEO, Mr. Guoshen Tu; our CFO, Terence Yap; our Chief Technical Officer, Dr. Yong Zhao; our Chief Operating Officer, Shufang Yang; our Vice President, Jianguo Jiang; and our Vice President, Lingfeng Xiong. There is significant competition in our industry for qualified managerial, technical and sales personnel and we cannot assure you that we will be able to retain our key senior managerial, technical and sales personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. If we are unable to attract and retain key personnel in the future, our business, operations, financial condition, results of operations and prospects could be materially adversely affected.

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OUR GROWTH STRATEGY INCLUDES MAKING ACQUISITIONS IN THE FUTURE, WHICH COULD SUBJECT US TO SIGNIFICANT RISKS, ANY OF WHICH COULD HARM OUR BUSINESS.

Our growth strategy includes identifying and acquiring or investing in suitable candidates on acceptable terms. We recently acquired the security and surveillance business of the Four-Related Companies and acquired a 100% ownership interest in Cheng Feng and Hongtianzhi. We also expect to close the acquisitions of HiEasy Electronic Technology Development Co., Ltd., or “HiEasy,” Changzhou Minking Electronics Inc. Ltd, or “Minking,” Hangzhou Tsingvision Intelligence System Co. Ltd., or “Tsing,” and Shenzhen Wandaiheng Industry Ltd., or “Wandai,” and establish an exclusive cooperation relationship with Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd., or “Chuang Guan,” in 2007. In addition, over time, we may acquire or make investments in other providers of products that complement our business and other companies in the security industry.

Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- diversion of management’s attention from running our existing business;

- increased expenses, including travel, legal, administrative and compensation expenses resulting from newly hired employees;

- increased costs to integrate personnel, customer base and business practices of the acquired company with our own;

- adverse effects on our reported operating results due to possible write-down of goodwill associated with acquisitions;

- potential disputes with sellers of acquired businesses, technologies, services, products and potential liabilities; and

- dilution to our earnings per share if we issue common stock in any acquisition.

Moreover, performance problems with an acquired business, technology, product or service could also have a material adverse impact on our reputation as a whole. In addition, any acquired business, technology, product or service could significantly under-perform relative to our expectations, and we may not achieve the benefits we expect from our acquisitions. For all of these reasons, our pursuit of an acquisition and investment strategy or any individual acquisition or investment could have a material adverse effect on our business, financial condition and results of operations.

OUR LIMITED ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY MAY ADVERSELY AFFECT OUR ABILITY TO COMPETE.

We rely on a combination of trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. A successful challenge to the ownership of our technology could materially damage our business prospects. Our competitors may assert that our technologies or products infringe on their patents or proprietary rights. We may be required to obtain from others licenses that may not be available on commercially reasonable terms, if at all. Problems with intellectual property rights could increase the cost of our products or delay or preclude our new product development and commercialization. If infringement claims against us are deemed valid, we may not be able to obtain appropriate licenses on acceptable terms or at all. Litigation could be costly and time

consuming but may be necessary to protect our technology license positions or to defend against infringement claims.

SAFETECH IS A BVI COMPANY, WHILE GOLDEN, CHENG FENG AND HONGTIANZHI ARE PRC COMPANIES, AND ALL OF OUR OFFICERS AND DIRECTORS RESIDE OUTSIDE THE UNITED STATES. THEREFORE, CERTAIN JUDGMENTS OBTAINED AGAINST OUR COMPANY BY OUR SHAREHOLDERS MAY NOT BE ENFORCEABLE IN THE BVI OR CHINA.

Safetech is a BVI company and our operating subsidiaries Golden, Cheng Feng and Hongtianzhi are PRC companies. All of our officers and directors reside outside of the United States. All or substantially all of our assets and the assets of these persons are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon our Company or such persons or to enforce against it or these persons the United States federal securities laws, or to enforce judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States, including the Securities Act and the Exchange Act.

RISKS RELATED TO OUR INDUSTRY

SEASONALITY AFFECTS OUR OPERATING RESULTS.

Our sales are affected by seasonality. Our revenues are usually higher in the second half of the year than in the first half of the year because fewer projects are undertaken during and around the Chinese spring festival.

OUR SUCCESS RELIES ON OUR MANAGEMENT'S ABILITY TO UNDERSTAND THE HIGHLY EVOLVING SURVEILLANCE AND SECURITY INDUSTRY.

The Chinese surveillance and security industry is nascent and rapidly evolving. Therefore, it is critical that our management is able to understand industry trends and make good strategic business decisions. If our management is unable to identify industry trends and act in response to such trends in a way that is beneficial to us, our business will suffer.

IF WE ARE UNABLE TO RESPOND TO THE RAPID CHANGES IN OUR INDUSTRY AND CHANGES IN OUR CUSTOMERS' REQUIREMENTS AND PREFERENCES, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions or customer requirements, we could lose customers and market share. The electronic security systems industry is characterized by rapid technological change. Sudden changes in customer requirements and preferences, the frequent introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products, services and systems obsolete. The emerging nature of products and services in the electronic security systems industry and their rapid evolution will require that we continually improve the performance, features and reliability of our products and services. Our success will depend, in part, on our ability to:

enhance our existing products and services;

anticipate changing customer requirements by designing, developing, and launching new products and services that address the increasingly sophisticated and varied needs of our current and prospective customers; and

respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of additional products and services involves significant technological and business risks and requires substantial expenditures and lead time. If we fail to introduce products with new technologies in a timely manner, or adapt our products to these new technologies, our business, financial condition and results of operations could be adversely affected. We cannot assure you that even if we are able to introduce new products or adapt our products to new technologies that our products will gain acceptance among our customers. In addition, from time to time, we or our competitors may announce new products, product enhancements or technological innovations that have the potential to replace or shorten the life cycles of our existing products and that may cause customers to refrain from purchasing our existing products, resulting in inventory obsolescence.

WE MAY NOT BE ABLE TO MAINTAIN OR IMPROVE OUR COMPETITIVE POSITION BECAUSE OF STRONG COMPETITION IN THE SECURITY AND SURVEILLANCE INDUSTRY, AND WE EXPECT THIS COMPETITION TO CONTINUE TO INTENSIFY.

The Chinese security and surveillance industry is highly competitive. There are about 15,000 companies in China that engage in the business of manufacturing, designing and building surveillance and security products. In addition, since China joined the World Trade Organization, "WTO," we also face competition from international competitors. Some of our international competitors are larger than us and possess greater name recognition, assets, personnel, sales and financial resources. These entities may be able to respond more quickly to changing market conditions by developing new products and services that meet customer requirements or are otherwise superior to our products and services and may be able to more effectively market their products than we can because they have significantly greater financial, technical and marketing resources than we do. They may also be able to devote greater resources than we can to the development, promotion and sale of their products. Increased competition could require us to reduce our prices, result in our receiving fewer customer orders, and result in our loss of market share. We cannot assure you that we will be able to distinguish ourselves in a competitive market. To the extent that we are unable to successfully compete against existing and future competitors, our business, operating results and financial condition could be materially adversely affected.

OUR BUSINESS AND REPUTATION AS A MANUFACTURER OF HIGH QUALITY SECURITY AND SURVEILLANCE PRODUCTS MAY BE ADVERSELY AFFECTED BY PRODUCT DEFECTS OR SUBSTANDARD PERFORMANCE.

We believe that we offer high quality products that are reliable and competitively priced. If our products do not perform to specifications, we might be required to redesign or recall those products or pay substantial damages. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products. In addition, product defects could result in substantial product liability. We do not have product liability insurance. If we face significant

liability claims, our business, financial condition, and results of operations would be adversely affected.

OUR PRODUCT OFFERINGS INVOLVE A LENGTHY SALES CYCLE AND WE MAY NOT ANTICIPATE SALES LEVELS APPROPRIATELY, WHICH COULD IMPAIR OUR PROFITABILITY.

Some of our products and services are designed for medium to large commercial, industrial and government facilities desiring to protect valuable assets and/or prevent intrusion into high security facilities in China. Given the nature of our products and the customers that purchase them, sales cycles can be lengthy as customers conduct intensive investigations and deliberate between competing technologies and providers. For these and other reasons, the sales cycle associated with some of our products and services is typically lengthy and subject to a number of significant risks over which we have little or no control. If sales in any period fall significantly below anticipated levels, our financial condition and results of operations could suffer.

RISKS RELATED TO DOING BUSINESS IN CHINA

ECONOMIC, POLITICAL, LEGAL AND SOCIAL UNCERTAINTIES IN CHINA COULD HARM OUR FUTURE INTERESTS IN CHINA.

All of our future business projects and plans are expected to be located in China. As a consequence, the economic, political, legal and social conditions in China could have an adverse effect on our business, results of operations and financial condition. The legislative trend in China over the past decade has been to enhance the protection afforded to foreign investment and to allow for more active control by foreign parties of foreign invested enterprises. There can be no assurance, however, that legislation directed towards promoting foreign investment will continue. More restrictive rules on foreign investment could adversely affect our ability to expand our operations in China or repatriate any profits earned there. Some of the changes that could adversely affect us include:

level of government involvement in the economy;
control of foreign exchange;
methods of allocating resources;
balance of payments position;
international trade restrictions; and
international conflict.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or “OECD,” in many ways. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

THE LEGAL ENVIRONMENT IN CHINA IS UNCERTAIN AND YOUR ABILITY TO LEGALLY PROTECT YOUR INVESTMENT COULD BE LIMITED.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign-owned enterprises in China. However, these laws, regulations and legal

requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. For example, on March 16, 2007, PRC adopted new property and corporate income tax laws and the implications of these new laws are uncertain as of the date of this prospectus. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign-invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States, or to enforce a judgment obtained in the United States against us or any of these persons.

THE CHINESE GOVERNMENT EXERTS SUBSTANTIAL INFLUENCE OVER THE MANNER IN WHICH WE MUST CONDUCT OUR BUSINESS ACTIVITIES.

China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy, or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

FUTURE INFLATION IN CHINA MAY INHIBIT OUR ACTIVITY TO CONDUCT BUSINESS IN CHINA.

In recent years, the Chinese economy has experienced periods of rapid expansion and widely fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

WE MAY BE UNABLE TO COMPLETE A BUSINESS COMBINATION TRANSACTION EFFECTIVELY OR ON FAVORABLE TERMS DUE TO COMPLICATED MERGER AND ACQUISITION REGULATIONS IMPLEMENTED ON SEPTEMBER 8, 2006.

On September 8, 2006, the PRC Ministry of Commerce, or “MOFCOM,” together with several other government agencies, promulgated a comprehensive set of regulations governing the approval process by which a Chinese company may participate in an acquisition of its assets or its equity interests and by which a Chinese company may obtain public trading of its securities

on a securities exchange outside of the PRC. Depending on the structure of the transaction, these regulations will require the Chinese parties to make a series of applications and supplemental applications to the governmental agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Governmental approvals will have expiration dates by which a transaction must be completed and reported to the governmental agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government now can exert more control over the combination of two businesses. Accordingly, due to these new regulations, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

The new regulations allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and the other government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price obviously lower than the appraised value of the Chinese business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulations also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulations may impede our ability to negotiate and complete a business combination transaction on financial terms which satisfy our investors and protect our stockholders' economic interests and we may not be able to negotiate a business combination transaction on terms favorable to our stockholders.

In addition to the above risks, in many instances, we will seek to structure transactions in a manner that avoids the need to make applications or a series of applications with Chinese regulatory authorities under these M&A regulations. If we fail to effectively structure an acquisition in a manner that avoids the need for such applications or if the Chinese government interprets the requirements of the M&A regulations in a manner different from our understanding of such regulations, then acquisitions that we have effected may be unwound or subject to rescission. Also, if the Chinese government determines that our structure of any of our acquisitions does not comply with these new regulations, then we may also be subject to fines and penalties.

RESTRICTIONS ON CURRENCY EXCHANGE MAY LIMIT OUR ABILITY TO RECEIVE AND USE OUR REVENUES EFFECTIVELY.

The majority of our revenues will be settled in RMB, and any future restrictions on currency exchanges may limit our ability to use revenue generated in RMB to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the RMB for current account transactions, significant restrictions still remain, including the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, and only at those banks in China authorized to conduct foreign exchange

business. In addition, conversion of RMB for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB.

THE VALUE OF OUR SECURITIES WILL BE AFFECTED BY THE FOREIGN EXCHANGE RATE BETWEEN THE U.S. DOLLARS AND RENMINBI.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and RMB, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into RMB for our operational needs, should the RMB appreciate against the U.S. dollar at that time, our financial position, the business of our Company, and the price of our common stock may be harmed. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes, should the U.S. dollar appreciate against the RMB, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

ACCOUNTING LAWS IN CHINA MANDATE ACCOUNTING PRACTICES WHICH MAY NOT BE CONSISTENT WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND THEREFORE OUR FINANCIALS AND THEIR INTERPRETATION INVOLVE UNCERTAINTIES.

The PRC accounting laws require an annual “statutory audit” to be performed in accordance with PRC accounting standards and the books of foreign invested enterprises to be maintained in accordance with Chinese accounting laws. These Chinese accounting practices which may not be consistent with U.S. generally accepted accounting principles. Article 14 of the PRC Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities. Noncompliance with such requirements may cause revocation of our business license. The translation of the financial statements from the requirements of the PRC to US GAAP, requires interpretation and exercise of judgment.

RISKS RELATED TO OUR COMMON STOCK AND THIS OFFERING

OUR COMMON STOCK IS CURRENTLY QUOTED ONLY ON THE OTC BULLETIN BOARD, WHICH MAY HAVE AN UNFAVORABLE IMPACT ON STOCK PRICE AND LIQUIDITY.

Our common stock is quoted only on the OTCBB. The OTCBB is a significantly more limited market than the New York Stock Exchange or NASDAQ system. The quotation of our shares on the OTCBB may result in a less liquid market available for existing and potential stockholders to trade shares of the common stock, could depress the trading price of the common stock and could have a long-term adverse impact on our ability to raise capital in the future.

PROVISIONS IN OUR CERTIFICATE OF INCORPORATION AND BYLAWS OR DELAWARE LAW MIGHT DISCOURAGE, DELAY OR PREVENT A CHANGE OF CONTROL OF OUR COMPANY OR CHANGES IN ITS MANAGEMENT AND, THEREFORE DEPRESS THE TRADING PRICE OF THE COMMON STOCK.

Delaware corporate law and our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our Company or changes in its management that our stockholders may deem advantageous. These provisions:

deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding shares of common stock will be able to elect all of our directors;

any stockholder wishing to properly bring a matter before a meeting of stockholders must comply with specified procedural and advance notice requirements; and

any vacancy on the Board of Directors, however the vacancy occurs, may only be filled by the directors.

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirors at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

THE PRICE OF OUR COMMON STOCK MAY BE VOLATILE AND MAY BE AFFECTED BY MARKET CONDITIONS BEYOND OUR CONTROL.

Our share price is likely to fluctuate in the future because of the volatility of the stock market in general and a variety of factors, many of which are beyond our control, including:

- quarterly variations in actual or anticipated results of our operations;
- changes in financial estimates by securities analysts;
- actions or announcements by us or our competitors;
- regulatory actions;
- litigation;
- additions or departures of key personnel; and
- future sales of our common stock.

Market fluctuations could result in volatility in the price of shares of our common stock, which could cause a decline in the value of your investment. In addition, if our operating results fail to meet the expectations of stock analysts or investors, we may experience an immediate and significant decline in the trading price of our common stock.

WE DO NOT INTEND TO PAY DIVIDENDS FOR THE FORESEEABLE FUTURE.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the

future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant. See “Dividend Policy.”

RISKS RELATED TO OUR RECENT HIGH YIELD AND CONVERTIBLE NOTES

COVENANTS IN OUR DEBT INSTRUMENTS RESTRICT OR PROHIBIT OUR ABILITY TO ENGAGE IN OR ENTER INTO A VARIETY OF TRANSACTIONS.

On February 16, 2007, we entered into a Notes Purchase Agreement with Citadel, as well as Indentures and an Investor Rights Agreement, relating to the purchase and sale of \$60 million Guaranteed Senior Unsecured Notes Due 2012. On April 24, 2007, we entered into another Notes Purchase Agreement with Citadel, as well as Indentures and an Amended and Restated Investor Rights Agreement, relating to the purchase and sale of \$50 million Guaranteed Senior Unsecured Notes Due 2012.

The two indentures governing the Notes contain various covenants that may limit our discretion in operating our business. In particular, we are limited in our ability to merge, consolidate or transfer substantially all of our assets, issue stock of subsidiaries, incur additional debts and create liens on our assets to secure debt. In addition, if there is default, and we do not maintain certain financial covenants or we do not maintain borrowing availability in excess of certain pre-determined levels, we may be unable to incur additional indebtedness, make restricted payments (including paying cash dividends on our capital stock) or redeem or repurchase our capital stock.

The indentures governing the Notes require us to maintain certain financial ratios and limit our ability to make capital expenditures. These covenants and ratios could have an adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and to fund our operations. Any future debt could also contain financial and other covenants more restrictive than those imposed under the indenture governing our Notes.

The Notes and their corresponding debt could have significant consequences to investors. For example, they could:

- reduce the availability of our cash flow to fund future working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our ability to obtain additional financing for working capital, capital expenditures, and other general corporate requirements;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to sell assets to reduce indebtedness or influence our decisions about whether to do so;
- restrict us from making strategic acquisitions or pursuing business opportunities;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and
- place us at a competitive disadvantage compared to competitors that may have proportionately less debt.

Under the indentures, if the notes are not converted before its maturity, the notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. If Citadel chooses not to convert the notes or is not forced to convert the notes under the mandatory conversion provisions as contained in the indentures, the we will incur significant debt obligations.

In addition, our ability to make scheduled payments or refinance our obligations depends on our successful financial and operating performance, cash flows, and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business, and other factors, many of which are beyond our control. If our cash flows and capital resources are insufficient to fund our debt obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital, restructure our debt, or declare bankruptcy. In the event that we are required to dispose of material assets or operations to meet our debt service and other obligations, the value realized on such assets or operations will depend on market conditions and the availability of buyers. Accordingly, we may be forced to sell at an unfavorable price.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business” and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” these terms, and other comparable terminology, although not all forward-looking statements contain these identifying words. These forward-looking statements, which are subject to risks, uncertainties, and assumptions, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance, or achievements to differ materially from the results, level of activity, performance, or achievements expressed or implied by the forward-looking statements. Those factors include, but are not limited to, our ability to attract new customers, changes in demand for our products and services, changes in the security and surveillance industry, our ability to develop new products and services, competitive pressures, risks associated with the integration of acquisitions,

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changes in laws and regulations governing our business and the other factors discussed under the caption “Risk Factors.”

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this prospectus to conform our prior statements to actual results or revised expectations.

USE OF PROCEEDS

The proceeds from the sale of the shares of our common stock being offered by the selling stockholders pursuant to this prospectus will belong to the selling stockholders. We will not receive proceeds from the sales of our common stock by the selling stockholders.

DETERMINATION OF OFFERING PRICE

The selling stockholders will determine at what price they may sell the offered shares, and such sales may be made at prevailing market prices or at privately negotiated prices.

DIVIDEND POLICY

We have never declared or paid cash dividends. Any future decisions regarding dividends will be made by our Board of Directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted on the OTCBB since June 2005 and currently trades under the symbol “CSCT.OB.” The CUSIP number is 16942J105.

The following table sets forth the quarterly high and low bid prices of a share of our common stock as reported by the OTCBB for the periods indicated. The quotations listed below reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

	Closing Bid Prices ⁽¹⁾	
	High	Low
<i>Year Ending December 31, 2007</i>		
1st Quarter	\$ 16.50	\$ 11.75
2nd Quarter (as of May 7, 2007)	17.90	14.90
<i>Year Ended December 31, 2006</i>		
1st Quarter	4.40	3.50
2nd Quarter	8.10	3.60
3rd Quarter	6.70	4.00
4th Quarter	12.10	7.05

Year Ended December 31, 2005

1st Quarter	N/A	N/A
2nd Quarter	0.25	0.05
3rd Quarter	4.50	0.05
4th Quarter	3.00	1.85

(1) The above tables set forth the range of high and low closing bid prices per share of our common stock as reported by www.quotemedia.com for the periods indicated.

Approximate Number of Holders of Our Common Stock

On April 26, 2007, there were approximately 1518 stockholders of record of our common stock. This number excludes shares of our common stock owned by stockholders holding stock under nominee security position listings.

Reports to Stockholders

We plan to furnish our stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

DILUTION

Our net tangible book value as of December 31, 2006 was \$2.84 per share of common stock. Net tangible book value is determined by dividing our tangible book value (total assets less intangible assets including know-how, trademarks and patents and less total liabilities) by the number of outstanding shares of our common stock. Since this offering is being made solely by the selling stockholders and none of the proceeds will be paid to us, our net tangible book value will be unaffected by this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this prospectus. The statement of operations data for the years ended December 31, 2004, 2005 and 2006, and the balance sheet data as of December 31, 2005 and 2006, are derived from, and are qualified by reference to, our audited consolidated financial statements that have been audited by GHP Horwath, P.C. and Child, Van Wagoner & Bradshaw, PLLC., independent registered public accounting firms, and that are included in this prospectus. The statement of operations data for the fiscal years ended December 31, 2003 and the balance sheet data as of December 31, 2003 and 2004 are derived from our audited consolidated financial statements that are not included in this prospectus. The statement of operations data for the fiscal years ended

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December 31, 2002 and the balance sheet data as of December 31, 2002 are derived from our unaudited consolidated financial statements that are not included in this prospectus.

The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for the fair presentation of our financial position and results of operations for these periods. Historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Statement of operations data:					
Revenues	\$ 106,989	\$ 32,688	\$ 16,056	\$ 11,795	\$ 10,331
Cost of sales	75,976	23,473	8,796	7,581	7,030
Gross profit	31,013	9,215	7,260	4,214	3,301
Other income	1,586	568	466	7	30
Operating expenses	5,671	1,737	1,129	952	1,097
Income from continuing operations before taxes	26,820	8,046	6,597	3,269	2,234
Income taxes	3,889	780	873	517	335
Net income	22,931	7,266	5,724	2,752	1,899
Earnings per share - basic	\$ 0.88	\$ 0.39	0.34	\$ 0.16	\$ 0.11
Earnings per share - diluted	0.85	0.39	0.34	0.16	0.11
Weighted average number of shares outstanding — basic	26,052	18,521	17,000	17,000	17,000
Weighted average number of shares outstanding —diluted	26,940	18,521	17,000	17,000	17,000
Cash dividend declared per common share	—	—	—	—	—
Cash flows data:					
Net cash flows provided by operating activities	\$ 2,984	\$ 799	684	\$ 1,019	\$ (13)
Net cash flows used in investing activities	(11,168)	(79)	(110)	(676)	(2,673)
Net cash flows used in financing activities	35,912	1,063	(1,056)	72	(1,629)

	2006	2005	December 31, 2004 (in thousands)	2003	2002
Balance sheet data:					
Cash and cash equivalents	\$ 30,980	\$ 2,277	\$ 33	\$ 515	\$ 100
Working capital	63,535	20,546	8,494	7,918	5,591
Total assets	114,527	29,116	22,009	16,977	13,582
Total current liabilities	22,604	4,505	5,209	5,900	4,126
Long term liability	2,010	—	—	—	—
Total liabilities	24,614	4,505	5,209	5,900	4,126
Total stockholders' equity	89,819	24,611	16,800	11,077	8,850

The following table sets forth certain unaudited financial information for each of the eight quarters ended December 31, 2006. The consolidated financial statements for each of these quarters have been prepared on the same basis as the audited consolidated financial statements included in this report and, in the opinion of management, include all adjustments necessary for the fair presentation of the results of operations for these periods. This information should be read together with our audited consolidated financial statements and the related notes included elsewhere in this report.

All amounts in thousands of U.S. dollars, except per share data

2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	\$ 14,594	\$ 8,015	\$ 43,448	\$ 40,932	\$ 106,989
Gross profit	\$ 4,397	\$ 3,037	\$ 12,862	\$ 10,717	\$ 31,013
Income before income taxes and minority interest	\$ 4,121	\$ 2,858	\$ 11,025	\$ 8,807	\$ 26,811
Net income	\$ 3,500	\$ 2,536	\$ 10,262	\$ 6,633	\$ 22,931
Basic income per share	\$ 0.16	\$ 0.10	\$ 0.40	\$ 0.22	\$ 0.88
Diluted income per share	\$ 0.16	\$ 0.10	\$ 0.39	\$ 0.20	\$ 0.85

2005

Revenues	\$	7,252	\$	5,477	\$	12,536	\$	7,423	\$	32,688
Gross profit	\$	1,542	\$	1,338	\$	4,298	\$	2,037	\$	9,215
Income before income taxes and minority interest	\$	1,716	\$	967	\$	4,148	\$	1,216	\$	8,046
Net income	\$	2,618	\$	1,210	\$	3,365	\$	73	\$	7,266
Basic income per share	\$	0.15	\$	0.07	\$	0.16	\$	0.01	\$	0.39
Diluted income per share	\$	0.15	\$	0.07	\$	0.16	\$	0.01	\$	0.39

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We manufacture, distribute, install and service security and surveillance products and systems and develop security and surveillance related software in China. Our customers mainly comprise (i) governmental entities (including customs agencies, courts, public security bureaus and prisons), (ii) non-profit organizations (including schools, museums, sports arenas and libraries) and (iii) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues). These account for approximately 40%, 10% and 50% of revenues, respectively.

A majority of our revenue is derived from the provision of a packaged solution which includes the products, installation and after sale service maintenance to our customers. Because a majority of our revenues is derived from the installation of security and surveillance systems for our customers which are generally non-recurring, our revenues are not concentrated within any one customer or group of customers. Maintenance services in our packaged solution are included for the first year from the date of completion. Our customers have an option to sign up for our maintenance program after the first year.

Our subsidiary Golden has 37 branch offices in provincial cities, Cheng Feng has 22 distribution points and Hongtianshi has 53 distribution points throughout China as our customers are located across the country without any particular concentration in any region.

Our Background and History

We were incorporated in the BVI on April 8, 2002 under the name "Apex Wealth Enterprises Limited" as a corporation under the International Business Companies Ordinance of 1984. In February 2006, we changed our name to China Security and Surveillance Technology Inc. In November 2006, we changed our domicile from the BVI to Delaware by merging the BVI corporation into a newly incorporated Delaware corporation. Prior to our reverse acquisition of Safetech in September 2005, we were a development stage enterprise and had not yet generated any revenues. Prior to the reverse acquisition, we provided business advisory and management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the reverse acquisition, our business became the business of our indirect, wholly-owned subsidiary, Golden and the newly acquired subsidiaries Cheng Feng and Hongtianszhi. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. In 2006, we acquired Cheng Feng, a corporation incorporated in the PRC which is engaged in the business of manufacturing, marketing and sales of security and surveillance related hardware as well as the development and integration of related software. In April 2007, we acquired Hongtianszhi, a corporation incorporated in the PRC which is engaged in the business of manufacturing digital cameras. We are headquartered in Shenzhen, China.

Reverse Acquisition with Safetech

On September 12, 2005, we acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of our common stock. As a result of this transaction, Safetech became our wholly-owned subsidiary, and Golden became our indirect wholly-owned subsidiary. Completion of the transaction resulted in a change in control of our Company.

For accounting purposes, this transaction was treated as a reverse acquisition, with Safetech as the acquirer and our Company as the acquired party.

Subsequent Acquisitions

On October 25, 2005, we entered into an agreement with the equity owners of Yuan Da, which was subsequently amended in April and May 2006. Pursuant to the amended agreement, we acquired all of the assets of Yuan Da for RMB 1 million (approximately \$0.125 million) and 200,000 shares of our common stock. Yuan Da is a limited liability company established in Shenzhen, China and was principally engaged in the sale and development of security and surveillance systems.

In July 2006, we entered into an agreement with shareholders of Cheng Feng to acquire 100% ownership of Cheng Feng for a consideration of RMB 120 million (approximately \$15 million), consisting of RMB 60 million (approximately \$7.5 million) in cash and 1,361,748 shares of our common stock. The operational control of Cheng Feng passed to the Company in July 2006, we received the relevant Chinese government approval for such acquisition in December 2006 and all consideration has been paid off as of the date of this prospectus. Cheng Feng is a company that is engaged in the business of manufacturing, marketing and sales of security and surveillance related hardware as well as the development and integration of related software.

In November 2006, we acquired the security and surveillance business of the Four-Related Companies, of which our CEO and director Guoshen Tu owned 80%, 60%, 42% and 90%, respectively. Mr. Tu did not receive any consideration for the acquisition of his interest in the Four-Related Companies. The minority shareholders of these four companies and their designees received in aggregate 850,000 shares of our common stock. Shenzhen Guangdian is engaged in the business of manufacturing and distributing security and surveillance products. The other three companies are engaged in the business of distributing security and surveillance products.

Recent Developments

On February 5, 2007, we entered into a Notes Purchase Agreement with Citadel Equity Fund Ltd., or “Citadel,” pursuant to which, on February 8, 2007, we offered and sold to Citadel a \$60 million Senior Notes due February 16, 2007. Such notes were paid off on February 16, 2007.

On February 16, 2007, we completed a Notes Purchase Agreement with Citadel for a \$60 million guaranteed senior unsecured convertible notes financing. This financing replaced the bridge financing discussed in the immediate above paragraph. The notes bear an annual interest rate of 1% and are due in 2012. The notes carry an initial conversion price of \$18 per share. If the notes are not converted before its maturity, the notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The net proceeds will be used for our working capital and acquisition plan. Please see our current report on Form 8-K filed on February 16, 2007 for more details

Effective February 7, 2007, our Board of Directors adopted our 2007 Equity Incentive Plan. The plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of 8,000,000 shares of our common stock may be issued under the plan. The plan has a 5-year term. On February 27, 2007, we granted an aggregate of 1,052,100 shares of restricted stock pursuant to the plan to 383 employees and consultants of the Company. These shares will vest with respect to each of the 383 employees and consultants over a period of four years. Please see our current reports on Form 8-K filed on February 13, 2007 and March 8, 2007 for more details.

On April 2, 2007, we entered into an Equity Transfer Agreement with Safetech and Zheng Huang, the sole owner of Chain Star, pursuant to which Safetech purchased 100% ownership of Chain Star from Mr. Huang. Chain Star is a holding company of Hongtianshi. Pursuant to the terms of the Equity Transfer Agreement, we will pay total consideration of RMB 250 million (approximately \$32.32 million) in exchange for 100% ownership of Chain Star, consisting of RMB 125 million (approximately USD\$16.16 million) in cash and RMB 125 million (approximately \$16.16 million) in the Company’s shares of common stock. Hongtianshi is engaged in the business of manufacturing digital cameras. Please see our current report on Form 8-K filed on April 2, 2007 for more details.

On April 24, 2007, we completed a Notes Purchase Agreement with Citadel for a \$50 million guaranteed senior unsecured convertible notes financing. The notes bear an annual interest rate of 1% and are due in 2012. The notes carry an initial conversion price of \$23.60 per share. If the notes are not converted before their maturity, the notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount such that the total amount represents to the holders thereof a gross yield (including the paid or any accrued and unpaid interest) of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The net proceeds will be used for our working capital and acquisition plan. Please see our current report on Form 8-K filed on April 25, 2007 for more details.

Material Opportunities and Challenges

Regulations promulgated by governmental agencies in China relating to security and surveillance industry often create opportunities for us. Currently, there are a number of formal and planned regulatory drivers which the Company believes offer significant growth opportunities. These include the estimated \$6 billion to \$12 billion that the Chinese government expects to spend for security infrastructure in preparation for the 2008 Olympics, along with the planned investment by Shanghai for the 2010 Worlds Fair. In addition, several ordinances have been passed by the Chinese government which require security surveillance systems to be installed in: (1) 660 cities throughout China for street surveillance as part of the Safe City Project “Plan 3111”; (2) all entertainment locations starting from March 1, 2006; (3) all Justice Departments and Courts; and (4) all coal mines in China (currently estimated at 24,000) from the beginning of 2008.

We are actively pursuing near-term acquisition prospects and other strategic opportunities. In the past twelve months, we successfully acquired Cheng Feng and Hongtianshi and the security and surveillance business of the Four-Related Companies. In addition, we have established an exclusive cooperation relationship with Chuang Guan in 2007 under which, among other things, Chuang Guan will subcontract or assign certain of its businesses to our Company to the extent permitted by the applicable PRC laws and regulations. We also expect to close the acquisitions of HiEasy, Mingking, Tsing, and Wandai in 2007.

We have a government policy monitoring group within the Company that regularly monitors changes in governmental regulations affecting the security and surveillance industry in China. If we determine that a new regulation or a change to an existing regulation presents an opportunity for us, we will actively pursue such opportunity. As a result, we act promptly on policy changes and are able to turn them into business opportunities.

We also face the long-term challenge of maintaining our rapid growth. In addition to maintaining the growth of our existing businesses, we will employ an acquisition strategy. In addition, to promote the continued growth of the group, we plan to explore others areas related to the security and surveillance industry (including, but not limited to, the fire and alarm sectors, access control, and related security and surveillance services) and recurring revenue business models within our existing business sectors.

Results of Operations

The following table summarizes the results of the Company’s operations during the fiscal years ended December 31, 2006 and 2005 and provides information regarding the dollar and percentage increase or (decrease) from the 2005 fiscal period to the 2006 fiscal period:

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All amounts, other than percentages, in millions of U.S. dollars

Years Ended December 31,				
Item	2006	2005	Increase (Decrease)	% Increase (% Decrease)
Revenue	\$106.99	\$32.69	74.30	227.29 %
Cost of sales	75.98	23.47	52.51	223.73 %
Gross profit	31.01	9.22	21.79	236.33 %
Operating expenses	5.67	1.74	3.93	225.86 %
Other income (expense)	1.48	0.57	0.91	159.65 %
Income taxes	3.89	0.78	3.11	398.72 %
Net income	22.93	7.27	15.66	215.41 %

The following table summarizes the results of the Company's operations during the fiscal years ended December 31, 2005 and 2004 and provides information regarding the dollar and percentage increase or (decrease) from the 2004 fiscal period to the 2005 fiscal period:

All amounts, other than percentages, in millions of U.S. dollars

Years Ended December 31,				
Item	2005	2004	Increase (Decrease)	% Increase (% Decrease)
Revenue	\$32.69	\$16.06	16.63	103.55%
Cost of sales	23.47	8.80	14.67	166.70%
Gross profit	9.22	7.26	1.96	27.00%
Operating expenses	1.74	1.13	0.60	52.63%
Other income (expense)	0.57	0.47	0.10	21.28%
Income taxes	0.78	0.87	(0.09)	(10.34)%
Net income	7.27	5.72	1.55	27.10%

Revenue

Revenue for the year ended December 31, 2006 increased by 227.29% to \$106.99 million as compared to \$32.69 million for 2005. Such increase was mainly due to the following factors: First, the population in China in general has become wealthier, as a result, the demand for security and surveillance products has also grown. Demand within various industries and organizations has also been increasing dramatically. Second, the Chinese government initiated several programs and regulatory drivers, such as the State Ordinance 458 and the "3111" program, that require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems. Third, our strategic efforts to increase our distribution channels during 2004 and 2005 turned out to be a highly successful way to capture the wave of growth in market demand in 2006. Fourth, we have been successful in raising sufficient working capital to facilitate expansion in the China market. Finally, our increased brand recognition in 2006 also contributed significantly to the growth in sales revenue. Management expects growth in 2007 to

remain strong due to (i) continued strong growth in the security and surveillance market both within the corporate and government sectors, (ii) better capitalization of the Company to fuel the growth, (iii) significantly enhanced branding and profiling in China, and (iv) acquisition strategy intended to boost our market share and competitiveness.

Revenue for the year ended December 31, 2005 increased by 103.55% to \$32.69 million against \$16.06 million for 2004. Such increase was mainly due to the growth of the Chinese security and surveillance market and the public's increased awareness of the importance of having security and surveillance systems.

Components of Revenue

The following table shows the different components comprising our total revenue over each of the past three fiscal years.

All amounts in millions of U.S. dollars

Revenue	2006	2005	2004
Project income from supply and installation of security and surveillance equipment	\$ 94.16	\$ 30.56	\$ 15.53
Outright sale of security and surveillance equipment	12.83	2.13	0.53

Income from installation projects contributed approximately 88% of total revenue in 2006 and was approximately 90% in each of 2004 and 2005. The main reason for the increase in outright sales revenue was due to the acquisition of Cheng Feng, which generates most of its revenues from the sales of security and surveillance equipment. Management believes that revenues from the installation projects will continue to be the Company's major revenue source in the next a few years. With the Company putting more resources into research and development, the acquisition of Cheng Feng, Hongtianshi and the planned acquisitions as discussed above, management believes that the percentage of revenue from the outright sale of products will increase in the future.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2006 increased by 223.73% to \$75.98 million as compared to \$23.47 million for the prior year. Such increase was mainly attributable to the increase of sales revenue.

Cost of goods sold for the year ended December 31, 2005 increased by 166.70% to \$23.47 million as compared to \$8.80 million in 2004. The increase was generally in line with the revenue increase.

The following table illustrates the items constituting our cost of goods sold.

All amounts, other than percentages, in millions of U.S. dollars

Cost Item	2006	2005	2004
Purchases (of raw material)	\$ 74.43	\$ 22.38	\$ 7.79
Percentage	97.96%	95.36%	88.52%
Salary	1.55	1.09	1.01
Percentage	2.04%	4.64%	11.48%
Total Percentage	100%	100%	100%

Gross Profit Margin

Our gross profit margin increased slightly from 28.20% for the year ended December 31, 2005 to 28.99% for the year ended December 31, 2006. Such increase was mainly attributable to our efforts in price stabilization and cost controls.

Our gross profit margin decreased from 45.21% for the year ended December 31, 2004 to 28.20% for the year ended December 31, 2005. This was mainly attributable to the increase in competition in the security and surveillance business and our strategic decision in taking some projects that had a lower profit margin, but were important for gaining market share.

Selling and Marketing Expenses

Selling and marketing expenses were \$1.51 million for the year ended December 31, 2006, a \$1.22 million increase as compared to \$0.29 million for the year ended December 31, 2005. This was mainly attributable to the increase of our sales revenue and our increased marketing and advertising campaigns to improve our brand awareness and market penetration.

Selling and marketing expenses were \$0.29 million for the year ended December 31, 2005 as compared to \$0.39 million for the year ended December 31, 2004. The \$0.10 million decrease in selling and marketing expenses was mainly attributable to large costs incurred in connection with the initial setting up of branches in 2004. All of our branch offices were set up by the end of 2004. As a result, selling and marketing expenses decreased in 2005.

Depreciation and Amortization

Depreciation and amortization expenses were \$1.12 million for the year ended December 31, 2006, a \$0.86 million increase as compared to \$0.26 million for the year ended December 31, 2005. Such increase was mainly attributed to the acquisition of Cheng Feng and the security and surveillance business of the Four-Related Companies. The amortization of intangible assets increased as a result of these acquisitions. In addition, the Company acquired more than \$5.00 million of property, plant and equipment during 2006, including new business premises and equipment to improve the production capacity of the Company.

Depreciation and amortization expenses were \$0.26 million for the year ended December 31, 2005 as compared to \$0.22 million for the year ended December 31, 2004. Such slight increase was mainly attributable the acquisition of new equipments.

General and Administrative Expenses

General and administrative expenses were \$3.04 million for the year ended December 31, 2006, a \$1.85 million increase as compared to \$1.19 million for the year ended December 31, 2005. Such increase was primarily due to the hiring of additional staff, increased property tax, research and development costs, and professional expenses incurred in connection with being a public reporting company. The number of our employees increased from approximately 400 in 2005 to approximately 580 in 2006. We believe such increase was generally in line with the increase in our revenue. We are now working on improving our internal control system to ensure the compliance with Sarbanes Oxley 404. As a result, we expect that our administrative expenses will continue to increase until we fully implement our new accounting system and implement Sarbanes Oxley 404. In addition, as we continue our acquisition strategy, costs related to professional fees will continue to increase.

General and administrative expenses were \$1.19 million for the year ended December 31, 2005 as compared to \$0.51 million for the year ended December 31, 2004. Such increase was mainly attributable to the increase in daily office expenses resulted from the expansion of our business and profession fees related to being a public reporting company.

Interest Expense

In 2006, we borrowed funds under 2 short- term loans and a long- term loan from local Chinese banks and incurred a total interest expense of \$0.11 million. We did not incur any finance costs in 2004 and 2005, as we had no bank loans during these periods.

Income Tax Expenses

We incurred income tax expenses of \$3.89 million for the year ended December 31, 2006, an increase of 398.72% against \$0.78 million for the year ended December 31, 2005. Such increase was mainly attributable to the increase of sales revenue and profits.

We incurred income tax expenses of \$0.78 million for the year ended December 31, 2005, a decrease of 10.34% from the \$0.87 million for the year ended December 31, 2004. The provision for corporate income tax payable was \$1.37 million in fiscal year 2005 due to higher revenue and profit. However, a net deferred tax asset of \$0.59 million was recognized. As a result, the income tax expense was reduced to \$0.78 million.

In accordance with the relevant tax laws and regulations of the People's Republic of China for the Shenzhen Special Economic Zone, our Chinese subsidiary Golden is subject to the Chinese enterprise income tax ("EIT") rate of 15% for the fiscal years 2006, 2005, and 2004. Cheng Feng is subject to an EIT rate of 7.5% due to its software and high technology company status. We anticipate that our effective tax rate will change from the current 15% in 2007 because the companies we acquired and intend to acquire are located in different cities and may have different tax rates.

On March 16, 2007, the National People's Congress of the PRC determined to adopt a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law will be effective on January 1, 2008. According to the new corporate income tax law, the applicable income tax rate for our operating subsidiaries may be subject to change. As the implementation detail has not yet been announced, we cannot be sure of the potential impact of such new corporate income tax law on our financial position and operating results.

Net Income

We earned a net income of \$22.93 million for the year ended December 31, 2006, an increase of 215.41% against \$7.27 million for the year ended December 31, 2005. Such increase was mainly attributable to the increase in revenue.

We earned a net income of \$7.27 million for the year ended December 31, 2005, an increase of 27.10% from \$5.72 million for the year ended December 31, 2004. Such increase was mainly attributable to the increase in revenue.

Net Income Margin

Net income margin for the year ended December 31, 2006 was 21.43%, slightly decreased from the 22.23% for the year ended December 31, 2005. The main reason for the decrease was the increase in general and administrative expenses in 2006. Management believes that our future net income margin may continue to decrease slightly due to the increase of costs associated with being a public company.

Net income margin for the year ended December 31, 2005 was 22.23%, decreased from the 35.62% of the year ended December 31, 2004. The decrease was mainly due to the increase in general and administrative expenses related to the process of becoming a public company.

Amount Due From/(to) Directors

In the past, we made advances to our directors which were non-interest bearing and repayable upon demand. The balances due were \$1 million on December 31, 2004 all of which were repaid during 2005. Since our reverse acquisition of Safetech in September 2005, we have adopted a policy of not making any loans to our officers, directors or affiliates in order to comply with the requirements of the Sarbanes-Oxley Act of 2002.

We also received advances from our director to facilitate our operations during the years ended December 31, 2005 and 2004. Such loans were non-interest bearing and were payable upon demand. In 2006, we successfully raised funds from the capital market and the need for directors to inject capital to facilitate the operations of the Company no longer existed. The balances due at December 31, 2006 and 2005 were \$0.08 million and \$0.07 million, respectively. The balance at the end of 2006 is expected to be paid off by the first quarter of 2007.

Inflation

We believe our operations have not been materially adversely affected by inflation or changing prices.

Foreign Currency Translation Gains

Our operating subsidiaries are located in China. The operating subsidiaries purchase all products and render services in China, and receive payment from customers in China using RMB as the functional currency. We do not engage in currency hedging.

We incurred a foreign currency translation gain of \$1.66 million for the year ended December 31, 2006 as compared with the foreign currency translation gain of \$0.55 million for the year ended December 31, 2005. On July 21, 2005, China reformed its foreign currency exchange policy, revalued RMB by 2.1 percent and allowed the RMB to appreciate as much as 0.3 percent per day against the U.S. dollar. As a result, we implemented different exchange rates in translating RMB into U.S. dollars in our financial statements for fiscal year 2006. In 2006, the exchange rates of 7.80, 7.97 and 8.07 were implemented in calculating the assets and liabilities, revenue and expenses, and shareholders' equity, respectively, which results in a \$1.66 million foreign currency translation gain in fiscal 2006.

Liquidity and Capital Resources

As of December 31, 2006, we had cash and cash equivalents of \$30.98 million. The following table provides detailed information about our net cash flow for all financial statement periods presented in this prospectus.

Cash Flow
(in millions of U.S. dollars)

	Years Ended December 31,		
	2006	2005	2004
Net cash provided by operating activities	\$ 2.98	\$ 0.80	\$ 0.68
Net cash (used in) investing activities	(11.17)	(0.08)	(0.11)
Net cash provided by (used in) financing activities	35.91	1.06	(1.05)
Net cash flow	27.72	1.78	(0.48)

Operating Activities:

Net cash provided by operating activities was \$2.98 million for the year ended December 31, 2006 which is an increase of \$2.18 million from the \$0.80 million net cash provided by operating activities for the same period in 2005. The increase was mainly due to an increase in net income.

Net cash provided by operating activities in 2005 totaled \$0.80 million, which is an increase of \$0.12 million from net cash provided by operating activities of \$0.68 million in 2004. The increase was mainly due to an increase in current liabilities.

Investing Activities:

Our main uses of cash for investing activities during 2006 were payments for the acquisition of property, plant and equipment and businesses.

Net cash used for investing activities in the year ended December 31, 2006 was \$11.17 million, which is an increase of \$11.09 million from net cash used for investing activities of \$0.08 million in the same period of 2005 due to the increased acquisition of property, plant, equipment and businesses in 2006.

Net cash used for investing activities in the year 2005 was \$0.08 million, which is a decrease of \$0.03 million from net cash used for investing activities of \$0.11 million in 2004. Such decrease was primarily the result of the decrease in purchases of fixed assets.

Financing Activities:

Net cash provided by financing activities in the year ended December 31, 2006 totaled \$35.91 million as compared to \$1.06 million provided by financing activities in 2005. The increase of cash provided by financing activities was mainly attributable to the issuance of common shares in connection with several financing transactions closed in 2006.

Net cash provided by financing activities was \$1.06 million in 2005, an increase of \$2.11 million as compared to \$1.05 million used for financing activities in 2004. Such increase was mainly attributable to the cash advance made to the Company by one of the directors in 2005.

In 2006, we completed several private placement transactions. In April 2006, we completed a private placement whereby we raised \$8.00 million in gross proceeds, which left us with approximately \$7.35 million in net proceeds after the deduction of approximately \$0.65 million of offering expenses. In July 2006, we completed another private placement of our common shares and raised \$16.2 million in gross proceeds, which left us with approximately \$14.9 million in net proceeds after the deduction of offering expenses in the amount of approximately \$1.3 million. A majority of the net proceeds of these two private placement transactions was used for the acquisition of Cheng Feng. In November 2006, we sold an aggregate of 1,538,462 shares of our common stock for a consideration of \$10 million at a price of \$6.50 per share, raising a total of \$10 million in net proceeds. The proceeds were used primarily to finance our working capital.

In addition, we have several loan agreements outstanding with various banks. Long term liabilities are long term loans from banks. As of December 31, 2006, our total long term liabilities were approximately \$2.23 million, consisting of a 10-year loan from China Construction Bank for the purposes of purchasing new office premises in Shenzhen. This loan was granted on September 27, 2006. It matures on September 26, 2016 and has an annual interest rate of 7.524%.

On August 16, 2006, we entered into a loan agreement with a Chinese bank. We borrowed RMB 10 million (approximately \$1.28 million) with an annual interest rate of 5.94%. The loan is due on February 16, 2007, and the interest is payable at the end of each month. The loan agreement requires us to use the loan proceeds only for our operations. The bank has the right to increase the interest rate and demand repayment of the entire loan principal and unpaid interest if we use the loan for purpose other than our operations. The loan is guaranteed by Mr. Tu, our CEO.

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On October 3, 2006, we signed a banking facility agreement with China Construction Bank, or “CCB,” under which CCB agreed to provide a new receivable based facility to support our efforts in securing new contracts from the Safe City Project initiative named “Plan 3111.” This facility will provide 3 possible financing options: (1) the government takes a loan from CCB to finance the project; (2) we sell the account receivables to CCB. 85% of total account receivables value will be paid by CCB to the Company and the remaining 15% will be collected by CCB from the government. CCB will, in turn, retain the finance charges before paying the Company; and (3) we take a loan from CCB to finance the project. As part of this agreement, we will make periodic deposits with CCB, which, depending upon the specific project, will provide a maximum factoring capacity of five to ten times the amount deposited. None of the facility has been drawn down as of the date of this prospectus.

On November 1, 2005, Cheng Feng entered into a loan agreement with a Chinese bank in its amount of RMB 6 million (approximately \$0.77 million) with an annual interest rate of 5.76%. The loan is due on November 7, 2007, and the interest is payable at the end of each quarter. The loan agreement requires us to use the loan proceeds only for our operations. The bank has the right to increase the interest rate and demand repayment of the entire loan principal and unpaid interest if we use the loan for purpose other than operations.

We have no material commitments for capital expenditures as of December 31, 2006. In order to facilitate our business expansion, we plan to acquire an industrial park within Shenzhen. We expect to close the transaction by the end of 2007. We believe that our currently available working capital, after receiving the aggregate proceeds of the capital raising activities and bank loans referred to above, should be adequate to sustain our operations at our current levels through at least the next twelve months.

Contractual Obligations

Below is a table which sets forth our contractual obligations as of December 31, 2006:

(In thousands)

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 2,232	\$ 222	\$ 670	\$ 510	\$ 829
Operating lease obligations	66	66	—	—	—
Total	\$ 2,298	\$ 288	\$ 670	\$ 510	\$ 829

Critical Accounting Policies

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

· *Basis of Consolidation* - The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its subsidiaries. All material inter-company accounts and transactions have been eliminated in the consolidation.

· *Intangible Assets* - Intangible assets represent surveillance recording systems acquired from Yuan Da, the acquisition of Cheng Feng and the businesses of the Four-Related Companies. The value of a surveillance recording system was established by an independent accounting firm. The valuations and allocation of intangible assets for the acquisition of Cheng Feng and the businesses of the Four-Related Companies were determined by a third party appraisal firm. The value of the recording system is to be amortized as the following policies and rates: using the straight-line method over its estimated useful life of five years. The values of the intangible assets of the acquisition of Cheng Feng and the businesses of the Four-Related Companies are to be amortized as the following policies and rates: using straight-line and accelerated method over its estimated useful life of two months to five years.

· *Goodwill* - Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in acquisitions. SFAS No: 142, "Goodwill and Other Intangible Assets" ("SFAS142") requires the testing of goodwill and indefinite-lived intangible assets for impairment at least annually. We test goodwill for impairment in the fourth quarter each year.

· *Inventories* - Inventories are stated at the lower of cost, determined on a weighted average basis, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized. Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the year the impairment or loss occurs.

· *Revenue Recognition* - The Company derives the bulk of its revenue from the supply and installation of security and surveillance equipment and the two deliverables do not meet the separation criteria under EITF issue 00-21. The installation is not considered to be essential to the functionality of the equipment having regard to the following criteria as set out in SAB 104:

- (i) The security and surveillance equipment is a standard product with minor modifications according to customers' specifications;
- (ii) Installation does not significantly alter the security and surveillance equipment's capabilities; and
- (iii) Other companies which possess the relevant licenses are available to perform the installation services.

In early 2006, the Company began performing much larger security installation contracts than it had been doing previously. As a marketing approach, the Company prepared standard contracts with its new larger customers, whereby 90% of the contract amount was due when installation was complete and payment of the remaining 10% was deferred for one year. Because of the newness of the larger contracts and the inability to immediately determine the amount of warranty work that would be required, the Company deferred recognizing the 10% of the contract amount as revenue until empirical information was available to revise the estimate. During the second and third quarters of 2006, the Company carefully monitored the warranty work requested by its customers, and determined that very little warranty work had been required to be performed.

Consequently, effective October 1, 2006, the Company reduced its estimate of future warranty requirements to approximately 1% of contract installation revenue. The fourth quarter reflects this change in the estimated warranty expenses.

Revenue from the outright sale of security and surveillance equipment is recognized when delivery occurs and risk of ownership passes to the customers.

· *Foreign Currency Translation* - The functional currency of the Company is RMB and RMB is not freely convertible into foreign currencies. The Company maintains its financial statements in the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet date. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company which are prepared using the functional currency have been translated into United States dollars. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and shareholders' equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of shareholders' equity. The exchange rates adopted are as follows:

	2006	2005	2004
Year end RMB: exchange rate	7.80	8.07	8.28
Average yearly RMB: exchange rate	7.97	8.19	8.28

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

· *Use of Estimates* - The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

· *Income Taxes* - Income tax expense is based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. In accordance with Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes," these deferred taxes are measured by applying currently enacted tax laws.

· *Recent Accounting Pronouncements*- In September 2005, the Emerging Issues Task Force (EITF) ratified EITF 04-13 (EITF 04-13), "Accounting for Purchases and Sales of Inventory with the Same Counterparty." This issue addresses the circumstances under which two or more inventory purchase and sales transactions with the same counterparty should be viewed as a single exchange transaction and whether there are circumstances under which such non-monetary exchanges should be accounted for at fair value. The adoption of EITF 04-13 is effective for new or modified agreements for fiscal periods beginning after March 15, 2006. It is not expected that the adoption of EITF 04-13 will have a material effect on our financial position or results of operations.

In November 2005, FASB Staff Position (FSP) 115-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments was issued. The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. The FSP applies to investments in debt and equity securities and cost-method investments. The application guidance within the FSP includes items to consider in determining whether an investment is impaired, in evaluating if an impairment is other-than-temporary and recognizing impairment losses equal to the difference between the investment's cost and its fair value when an impairment is determined. The FSP is required for all reporting periods beginning after December 15, 2005. Earlier application is permitted. We do not anticipate the amendment will have a material effect on our financial position or results of operations.

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 amends SFAS No. 133 and 140. The statement applies to certain hybrid financial instruments, which are instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. This new standard also permits an election for fair value re-measurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS No. 133. The fair value election can be applied on an instrument-by-instrument basis to existing

instruments at the date of adoption and can be applied to new instruments on a prospective basis. SFAS No. 155 shall be effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of first fiscal year that begins after September 15, 2006. It is not expected that SFAS No. 155 will have a material effect on the Company's financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109." This interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The provisions are effective for fiscal years beginning after December 15, 2006. It is not expected that FIN 48 will have a material effect on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and that market participant assumptions include assumptions about risk and effect of a restriction on the sale or use of an asset. The provisions are effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of the statement.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115*". This statement permits companies to choose to measure many financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement of accounting for financial instruments. This statement applies to all entities, including not for profit.

The fair value option established by this statement permits all entities to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007.

The Company is currently assessing the impact adoption of SFAS No. 159 will have on its consolidated financial statements.

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Seasonality

Our operating results and operating cash flows historically have been subject to seasonal variations. Our revenues are usually higher in the second half of the year than in the first half of the year because fewer projects are undertaken during and around the Chinese spring festival.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Company deposits surplus funds with Chinese banks earning daily interest. The Company does not invest in any instruments for trading purposes. The Company's operations are not sensitive to fluctuations in interest rates.

Foreign Exchange Risk

While our reporting currency is the U.S. Dollar, all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. All of our assets are denominated in RMB except for cash. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. Dollars and RMB. If the RMB depreciates against the U.S. Dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. Dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

DESCRIPTION OF BUSINESS

Overview

We are a holding company that owns two direct subsidiaries, Safetech and CSST China. Safetech is a holding company that owns Golden, CSST HK and Chain Star. CSST HK in turn owns Cheng Feng, and Chain Star owns Hongtianzhi. Our primary business operations are conducted through our indirect subsidiaries Golden, Cheng Feng and Hongtianzhi. Golden's business is focused on manufacturing, distributing, installing and maintaining security and surveillance systems in China. Cheng Feng's business is focused on the manufacturing, marketing and sales of security and surveillance related hardware as well as the development and

integration of software. Hongtianzhi's business is focused on the manufacture of digital cameras. Until our acquisition of Safetech in September 2005, our business strategy and ownership changed over the years as a result of several acquisitions of our stock that are discussed in the section below entitled "Our Background and History."

The chart below demonstrates our corporate structure:

Our Background and History

We were incorporated in the BVI on April 8, 2002 under the name "Apex Wealth Enterprises Limited" as a corporation under the International Business Companies Ordinance of 1984. In February 2006, we changed our name to China Security and Surveillance Technology Inc. In November 2006, we changed our domicile from the BVI to Delaware by merging the BVI corporation into a newly incorporated Delaware corporation China Security & Surveillance Technology, Inc. The main reasons for the change of domicile were to comply with the covenants of a stock purchase agreement that we entered into on April 4, 2006 in connection with a financing transaction, as well as to take advantage of the benefits of being a Delaware corporation, including the enhanced credibility, greater flexibility in corporate law and attractiveness for directors and officers.

Prior to our reverse acquisition of Safetech, which was consummated on September 12, 2005 and is discussed in more detail below, we were a development stage enterprise and had not yet generated any revenues. Prior to the reverse acquisition, we provided business advisory and

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management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the reverse acquisition, our business became the business of our indirect, wholly-owned subsidiary, Golden and the newly acquired subsidiaries Cheng Feng and Hongtianzhi. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. In 2006, we acquired Cheng Feng, a corporation incorporated in the PRC which is engaged in the business of manufacturing, marketing and sales of security and surveillance related hardware as well as the development and integration of software. In April 2007, we acquired Hongtianzhi, a corporation incorporated in the PRC and a manufacturer of digital cameras. We are headquartered in Shenzhen, China.

Reverse Acquisition with Safetech

On September 12, 2005, we acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetec