

UNIPRO FINANCIAL SERVICES INC

Form SB-2

December 20, 2006

Table of Contents

As filed with the Securities and Exchange Commission on December 20, 2006

Registration No.

---

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

## FORM SB-2

### REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

## UNIPRO FINANCIAL SERVICES, INC.

(Name of small business issuer in its charter)

|   |   |  |
|---|---|--|
| <b>Florida</b><br>(State or jurisdiction of<br>incorporation or organization) | <b>6199</b><br>(Primary Standard Industrial<br>Classification Code Number)  | <b>65-1193022</b><br>(I.R.S. Employer<br>Identification No.) |
|   | <b>South Banbidian Industrial Park,<br/>Liqiao Township, Shunyi District<br/>Beijing 101304, People's Republic of China</b> |  |
|   | <b>(86-10) 8416 3816</b>  |  |

(Address and telephone number of principal executive offices

and principal place of business)

---

**Brian Lin**

Chief Executive Officer

**South Banbidian Industrial Park,**

**Liqiao Township, Shunyi District**

**Beijing 101304, People s Republic of China**

**(86-10) 8416 3816**

(Name, address and telephone number of agent for service)

---

*Copies to:*

**William Gleeson, Esq.**

**Preston Gates & Ellis, LLP**

**925 Fourth Avenue**

**Suite 2900, Seattle, WA**

**98104-1158**

**Tel: (206) 623-7580**

---

**Approximate date of proposed sale to the public:**

**As soon as practicable after this Registration Statement becomes effective.**

---

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:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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 for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

---

**CALCULATION OF REGISTRATION FEE**

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

| Title of each class of securities<br>to be registered           | Amount to be<br>registered <sup>(1)</sup> | Proposed<br>maximum<br>offering price per<br>share | Proposed<br>maximum<br>aggregate<br>offering price | Amount of<br>registration fee |
|---|---|--|--|-------------------------------|
| Common Stock  | 3,526,059<br>shares                       | \$4.35 <sup>(2)</sup>                              | \$15,338,357                                       | \$1,641 <sup>(2)</sup>        |
| Common Stock issuable upon exercise of Placement Agent Warrants | 184,626<br>shares                         | \$4.35   | 803,123  | 86                            |
| Common Stock issuable upon exercise of Series A Warrants        | 492,340<br>shares                         | \$4.35   | 2,141,679  | 229                           |
| Common Stock issuable upon exercise of Series B Warrants        | 492,340<br>shares                         | \$4.88   | 2,402,619  | 257                           |
| Total   | 4,695,365<br>shares                       |  | \$20,685,635                                       | \$2,213                       |

- (1) In addition, pursuant to Rule 416 under the Securities Act of 1933, this Registration Statement includes an indeterminate number of additional shares as may be issuable as a result of stock splits or stock dividends which occur during this continuous offering.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933 based upon the average of the high and low prices of the registrant's common stock on December 13, 2006 on the over the counter stock market.

**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 thereafter 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 Section 8(a), may determine.**

**Table of Contents**

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

**SUBJECT TO COMPLETION, DATED DECEMBER 20, 2006**

**PROSPECTUS**

**4,695,365 Shares**

**UNIPRO FINANCIAL SERVICES, INC.**

**Common Stock**

This prospectus relates to shares of common stock of Unipro Financial Services, Inc. that may be offered for sale for the account of the selling stockholders identified in this prospectus. The selling stockholders may offer and sell from time to time up to 4,695,365 shares of our common stock, which amount includes shares to be issued to the selling stockholders only if and when they exercise warrants held by them.

The selling stockholders may sell all or any portion of their shares of common stock in one or more transactions on the over the counter stock market or in private, negotiated transactions. Each selling stockholder will determine the prices at which it sells its shares. Although we will incur expenses in connection with the registration of the common stock, we will not receive any of the proceeds from the sale of the shares of common stock by the selling stockholders. We will receive gross proceeds of up to \$4,765,231 from the exercise of the warrants, if and when they are exercised.

Our common stock is listed on the OTC Bulletin Board and traded under the symbol UPFS.OB. On December 15, 2006, the closing price of the common stock quoted on the OTC Bulletin Board was \$4.35 per share.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read this entire prospectus and any amendments or supplements carefully before you make your investment decision.

---

**The shares of common stock offered under this prospectus involve a high degree of risk. See Risk Factors beginning at page 2.**

---

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

---

**The date of this prospectus is December , 2006**

**Table of Contents**

**TABLE OF CONTENTS**

|   |     |
|---|-----|
| <u>Summary</u>  | 1   |
| <u>Risk Factors</u>   | 2   |
| <u>Cautionary Statement Concerning Forward Looking Statements</u>                               | 9   |
| <u>Use of Proceeds</u>  | 9   |
| <u>Market Price and Dividends on Registrant's Common Equity and Related Stockholder Matters</u> | 9   |
| <u>Management's Discussion and Analysis or Plan of Operation</u>                                | 11  |
| <u>Business of the Company</u>  | 20  |
| <u>Management</u>   | 29  |
| <u>Principal Stockholders</u>   | 34  |
| <u>Selling Stockholders</u>   | 35  |
| <u>Plan of Distribution</u>   | 37  |
| <u>Description of Securities</u>  | 40  |
| <u>Legal Matters</u>  | 42  |
| <u>Experts</u>  | 42  |
| <u>Available Information</u>  | 42  |
| <u>Index to Consolidated Financial Information</u>  | F-1 |

We have not authorized any person to give you any supplemental information or to make any representations for us. You should not rely upon any information about our company that is not contained in this prospectus or in one of our public reports filed with the Securities and Exchange Commission ( SEC ) and incorporated into this prospectus. Information contained in this prospectus or in our public reports may become stale. You should not assume that the information contained in this prospectus, any prospectus supplement or the documents incorporated by reference are accurate as of any date other than their respective dates, regardless of the time of delivery of this prospectus or of any sale of the shares. Our business, financial condition, results of operations and prospects may have changed since those dates. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted.

In this prospectus, Unipro the company, we, us, and our refer to Unipro Financial Services, Inc., a Florida corporation and its subsidiaries.

---

**Table of Contents**

**SUMMARY**

*You should read this summary in conjunction with the more detailed information and financial statements appearing elsewhere in this prospectus.*

*Except as expressly stated otherwise, all financial information contained in this prospectus represent the results of operations and financial of our recently acquired subsidiary China Fire Protection Group Inc. ( CFPG ). All of the sales and expenses of CFPG are denominated in Renminbi ( RMB ), the national currency of the People's Republic of China. For the convenience of the reader, the financial information of CFPG contained in this prospectus has been converted into United States dollars at the approximate exchange rates prevailing as of the stated date and during the stated periods, as the case may be.*

*All share information contained in this prospectus gives effect to a 1 for 5 reverse split of our common stock effected in September, 2006.*

*There are 701,538.46 shares of Series A Convertible Preferred Stock outstanding. Each share of Series A Convertible Preferred Stock is convertible into 32.5 shares of common stock. If the Series A Convertible Preferred Stock were converted as of December 15, 2006, the common stock issued on conversion, 22,800,000 shares of common stock would constitute 85.8% of the outstanding shares. The conversion will occur automatically on the effectiveness of an amendment to our Articles of Incorporation increasing the authorized number of shares of common stock. The amendment has been approved by the directors and shareholders and will become effective 20 days after the distribution of an Information Statement relating thereto. The conversion will occur before the effective date of the registration statement of which this Prospectus is a part.*

**Our Company**

We are engaged in the business of owning and operating an industrial fire safety company and its subsidiaries in the People's Republic of China. We are the largest manufacturer and contractor of industrial fire safety products and systems in China. We provide total solutions in the industrial fire safety market. We have developed a proprietary product line that encompasses all aspects of industrial fire safety including fire detection, fire system control and fire extinguishing. We manufacture high-end products using our self-developed proprietary technologies for use in our contract services. We sell most of our own products by incorporating them into the industrial fire safety systems we design and install for our customers. We market our industrial fire safety products and systems to major companies in the iron and steel, power and petrochemical industries. We are developing our business in the transportation, nuclear energy, and public space markets. We also engage in contract manufacturing for some major international companies.

Our offices are located at South Banbidian Industrial Park, Liqiao Township, Shunyi District, Beijing 101304, People's Republic of China, (86-10) 8416 3816.

**The Offering**

This offering relates to the offer and sale of our common stock by the selling stockholders identified in this prospectus. The selling stockholders will determine when they will sell their shares, and in all cases will sell their shares at the current market price or at negotiated prices at the time of the sale. Although we have agreed to pay the expenses related to the registration of the shares being offered, we will not receive any proceeds from the sale of the shares by the selling stockholders.

**Summary Financial Information**

The following summary financial data are derived from our consolidated financial statements of our recently acquired subsidiary, CFPG. This information is only a summary and does not provide all of the information contained in the financial statements of CFPG and related notes. You should read the Management's Discussion and Analysis or Plan of Operation beginning on page 11 of this prospectus and our financial statements and related notes included elsewhere in this prospectus.

**Statement of Operations Data:**

**Year ended December 31,      Nine Months Ended**

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

|                            | 2004          | 2005       | September 30, |            |
|----------------------------|---------------|------------|---------------|------------|
|                            |               |            | 2005          | 2006       |
| Net revenue                | \$ 16,457,194 | 21,574,214 | 15,256,821    | 23,545,455 |
| Net Income (Loss)          | 5,219,468     | 7,272,134  | 6,063,530     | 7,349,361  |
| <b>Balance Sheet Data:</b> |               |            |               |            |

|                      | December 31, |
|----------------------|--------------|
|                      | 2005         |
| Working capital      |              |
| Total assets         | 25,831,837   |
| Total liabilities    | 25,754,107   |
| Shareholders' equity |              |

## Table of Contents

### RISK FACTORS

An investment in our common stock is speculative and involves a high degree of risk. You should carefully consider the risks described below and the other information in this Prospectus before purchasing any of our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also adversely impair our business operations. If any of the events described in the risk factors below actually occur, our business, financial condition or results of operations could suffer significantly. In such case, the value of your investment could decline and you may lose all or part of the money you paid to buy our common stock.

#### **Risks Related To Our Business**

***Our products and services have relied on a few industries. We may not be able to increase the market for our products and services in other industries.*** Presently, our products and services are mainly sold to the iron and steel, power and petrochemical industries. Our products and services, therefore, depend heavily on a limited number of industries. Our growth potential may be limited if we cannot expand the market for our products and services. Although we have increased our research and development to expand the range of application of our products and services, there is no assurance that we will succeed in our effort.

***The price increase of raw materials such as copper and steel could increase the cost of our products and reduce our profit margin.*** Copper is the major material for our linear heat detectors and stainless steel is the major materials for our fire extinguishing nozzles. In the last two years, the prices of copper and steel have fluctuated substantially as have other raw materials due to the increasing demand in China resulting from the rapid economic development. Although we have managed to minimize the impact of such fluctuation in the past, there is no assurance that we will be able to do so in the future. If the price for copper and steel increases more significantly, our profit margin could decrease considerably.

***Historical financial results do not include significant amounts of compensation.*** Historically, we have not compensated our executives with salaries and bonuses. Historical financial results do not include significant amounts of compensation. Although the lack of salaries and bonuses was appropriate for a private Chinese company, in the future, we will compensate our executives at market levels of compensation as determined by the board of directors and as a result our expenses will be increased in the future.

***We may not be able to secure financing needed for future operating needs on acceptable terms, or on any terms at all.*** From time to time, we may seek additional financing to provide the capital required to maintain or expand our design and production facilities, research and development initiatives and equipment and/or working capital, as well as repay outstanding loans if cash flow from operations is insufficient to do so. We cannot predict with certainty the timing or amount of any such capital requirements. If such financing is not available on satisfactory terms, we may be unable to expand our business or to develop new business as the rate desired, and our operating results may suffer. If we are able to incur debt, we may be subject to certain restrictions imposed by the terms of the debt and the repayment of such debt may limit our cash flow and our ability to grow. If we are unable to incur debt, we may be forced to issue additional equity, which could have a dilutive effect of the then current holders of equity.

***Our strategic alliances may not achieve their objectives.*** Currently, we have an agreement with a multinational company to supply our linear heat detectors. We are negotiating with another company to enter into a similar agreement. The strategic alliances are intended to enhance or complement our technology or work in conjunction with our technology, increase our manufacturing capacity, provide additional components or materials, and develop, introduce and distribute products using our technology and know-how. If these alliances do not achieve their objectives or parties to our strategic alliances do not perform as contemplated, our growth may be adversely affected.

***Expansion of our business may put added pressure on our management and operational infrastructure impeding our ability to meet any increased demand for our products and services and possibly hurting our operating results.*** Our business plan is to significantly grow our operations to meet anticipated growth in demand for our products and services products. Our planned growth includes the increase of our line of products and expansion of sales in our exiting markets as well as new markets over the next few years. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. The evolution of our business also presents numerous risks and challenges, including:

the continued acceptance of our products and services by the iron and steel, power and petrochemical industries;



---

**Table of Contents**

our ability to successfully and rapidly expand sales to potential customers in response to potentially increasing demand;

the costs associated with such growth, which are difficult to quantify, but could be significant;

rapid technological change; and

the highly competitive nature of the industrial fire safety industry.

If we are successful in obtaining rapid market growth of our products and service, we will be required to deliver large volumes of quality products and services to customers on a timely basis at a reasonable cost to those customers. Meeting any such increased demands will require us to expand our manufacturing facilities, to increase our ability to purchase raw materials, to increase the size of our work force, to expand our quality control capabilities and to increase the scale upon which we provide our products and services. Such demands would require more capital and working capital than we currently have available and we maybe unable to meet the needs of our customers.

***Our business depends on our ability to protect our intellectual property effectively. If any of our patents is not protected, or any of our trade secrets are divulged, we may lose our competitive edge.*** The success of our business depends in substantial measure on the legal protection of the patents and other proprietary rights in technology we hold. We hold issued patents and pending patent applications in China related to technologies important to our business. Monitoring infringement of intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property and know-how in China where the laws may be difficult to enforce to protect our proprietary rights as fully as the laws of the United States. The validity and breadth of claims in patents and trade secrets involves complex legal and factual questions and, therefore, the extent of their enforceability and protection is highly uncertain. Issued patents or patents based on pending patent applications or any future patent applications or trade secrets may not exclude competitors or may not provide a competitive advantage to us. In addition, patents issued or licensed to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. Furthermore, we cannot assure you that our competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us.

We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to products and manufacturing processes. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements. If these contractual measures fail to protect our proprietary rights, any advantage those proprietary rights provided to us would be negated. Some of our products are based on formulas. The formulas are maintained as trade secrets and are revealed only to a small number of technical and management personnel. The trade secrets provide us a competitive edge in the linear heat technology and no other manufacturers have successfully developed such technology. If any of the trade secrets are divulged, we could lose our competitive edge in the linear heat technology and others.

***We receive a significant portion of our revenues from a small number of customers. Our business will be harmed if our customers reduce their orders from us.*** A significant amount of our revenues are derived from only a small number of customers mainly in the iron and steel, power and petrochemical industries. Although no customer individually accounted for more than 15% of our revenues for the fiscal year ended December 31, 2005 in the aggregate, our five largest customers in services and products businesses accounted for approximately 51% and 35% of our revenues from these segments in fiscal 2005, respectively and 53% and 40% of our revenues for the nine months ended September 30, 2006 respectively. Dependence on a few customers could make it difficult to negotiate attractive prices for our products and could expose us to the risk of substantial losses if a single dominant customer stops purchasing our products. If we lose any customers and are unable to replace them with other customers that purchase a similar amount of our products and services, our revenues and net income would decline considerably.

***We extend relatively long payment terms for accounts receivable. If any of our customers fails to pay us, our revenues may be affected as a result.*** Our standard practice is to charge our customers 10%-30% of the contract amount upfront and collect the balance according a schedule based on the progress of a project. However, many of our customers are state-owned enterprises and may be slow in their payment process. As a result of the size of many of our contracts, their delayed payments adversely affect our cash flow and our ability to fund our operations out of our operating cash flow. In addition, although we attempt to establish appropriate reserves for our receivables, those reserves may not prove to be adequate in view of actual levels of bad debts. The failure of our customers to pay us in a timely manner could negatively affect our working capital, which could in turn adversely affect our cash flow. Although no customer has failed to pay us even though their payments were delayed, there is no assurance that they will be able to pay in the future.



## **Table of Contents**

### **Risks Related To Our Industry**

***Our market will open to foreign companies. China's commitments under the WTO (World Trade Organization) may intensify competition.***

In connection with its accession to the WTO, China made many commitments including opening its markets to foreign products and services, allowing foreign companies to conduct distribution business and reducing customs duties. As a result, foreign manufacturers may ship more industrial fire safety products into China or they may establish manufacturing facilities and service centers in China. Competition from foreign companies may squeeze our profit margins and hence our business results will suffer.

***The services market is fragmented and susceptible to consolidation, which could adversely affect us.*** We engage in providing services which consist of the design and installation of fire safety systems. The market is fragmented in the sense that there are many suppliers and they are typically small. The market may be subject to consolidation and if so, we may not be a major player. If so, our services business could suffer and that business is a major source of sales of our own products and profitability.

***Our customers will decrease their capital expenditure if China's economy slows down. Such a slowdown may affect our growth.*** Our industry is cyclic in nature and highly dependent on economic conditions. Over the last three decades, China's economy has been growing at an average annual rate of 9-10%. There can be no assurance that China's economy will continue to grow at such pace in the future. If the economy slows down, our customers will cut their capital expenditure and hence order less of our products and services. Our growth may suffer as a result.

***High margins for the industrial fire safety business will attract more businesses to enter this field. Our business could suffer as a result of more competition.*** Our business has enjoyed relatively high profit margins so far due to the fact that we have concentrated in industrial fire safety. Such high margins will attract more businesses to enter into this field. As a result, competition may intensify and our profits may drop significantly.

***If we cannot compete successfully for market share against other industrial fire safety products companies, we may not achieve sufficient product revenues, and our business will suffer.*** The market for our products and services is characterized by intense competition and rapid technological advances. Our products and services compete with a multitude of products and services developed, manufactured and marketed by others and we expect competition from new market entrants in the future, including as a result of the WTO. Existing or future competing products may provide better quality and technology, greater utility or lower cost or other benefits from their intended uses than our products, or may offer comparable performance at lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues, and our business could suffer.

### **Risks Related To Doing Business in China**

***Changes in China's political or economic situation could harm us and our operational results.*** Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some of the things that could have this effect are:

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. The economic reforms in China have been conducted under a tight grip of the Chinese government. 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.

---

**Table of Contents**

***Our business is largely subject to the uncertain legal environment in China and your legal protection 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 invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign shareholders, 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 U.S., and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for shareholders to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. 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. 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.

***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 high 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 Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has been more moderate since 1995, high inflation may in the future cause 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.

***Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.*** The majority of our revenues will be settled in Renminbi and, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi 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 Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi 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 Renminbi.

***Cessation of the income tax reduction and exemption for our subsidiaries may have an adverse impact on our net profits.*** Under Chinese income tax law, a company would ordinarily be subject the PRC state and local income tax rates of 30% and 3%, respectively. However, the law also provides tax exemption or reduction for high-tech businesses and foreign invested enterprises ( FIE ). As a result, some of our subsidiaries are currently enjoying a tax reduction of and/or exemption from state and local income tax. For details, please see the income taxes section of Management Discussion and Analysis. If the Chinese government could change its tax law, our revenues and profit could suffer.

***A new Chinese law may impact our ability to make acquisitions of Chinese businesses.*** On August 8, 2006, six PRC regulatory agencies namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission ( SASAC ), the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission ( CSRC ), and the State Administration of Foreign Exchange ( SAFE ), jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the New M&A Rule ), which became effective on September 8, 2006. The New M&A Rule purports, among other things, to require offshore special purpose vehicles, or SPVs, formed after the effective date, for overseas listing purposes, through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

## **Table of Contents**

The Company intends to make acquisitions of Chinese businesses in the future. There are uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the NEW M&A Rule and there uncertainties could make it difficult or impossible to make acquisitions of Chinese businesses in the future.

***If the government changes its policies on value added tax rebate, our revenues and profit could be adversely affected.*** Under Chinese tax law, businesses should pay a value added tax at a 17% rate. To support the development of the software industry, the Chinese government has instituted policies to rebate value added tax charged for software certified by the government up to 14%. As a result, our subsidiaries, Sureland Creation Ltd. and Hua An Limited, are paying their value added tax at an effective rate of 3% for the software they sell. However, the Chinese government changes its policies from time to time. If the Chinese government changes the policies currently in place for value added tax rebate, our revenues and our profit could suffer.

***The value of our securities will be affected by the foreign exchange rate between U.S. dollars and Renminbi.*** The value of our Common Stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, 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 Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the company, and the price of our Common Stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our Common Stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

### **Risks Related To The Market For Our Stock**

***The market for our Common Stock is limited.*** The trading market in Unipro Common Stock is the Over the Counter Bulletin Board. The Bulletin Board is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than NASDAQ, and quotes for stocks included on the Bulletin Board are not listed in the financial sections of newspapers, as are those for the NASDAQ Stock Market.

Trading in our Common Stock have been sporadic and do not constitute an active market. From the date, November 2, 2006, that we filed an 8-K after acquired CPFPG on October 27, 2006 to December 13, 2006, only about 20,000 shares have traded and on more than half of the trading days no shares have traded. During the period from November 2, 2006 to December 4, the high sale price was \$5.00 and the low sale price was \$4.02. Prior to the acquisition of CPFPG, we were a publicly traded shell and the transactions in our stock while we were a shell are not relevant. On December 15, 2006, the closing price was \$4.35.

Unipro currently has approximately 320 shareholders. Of those holders, approximately 300 hold freely tradable shares, but such persons will own only about 1% of the outstanding after the completion of this Offering. A viable public trading market may not develop for our shares or may take a period of time to develop. Such a market, if it does develop, could be subject to extreme price and volume fluctuations. In the absence of an active trading market:

Shareholders may have difficulty buying and selling or obtaining market quotations;

market visibility for our Common Stock may be limited; and

a lack of visibility for our Common Stock may have a depressive effect on the market price for our Common Stock.

The sale of shares issued in this offering and on the exercise of the Warrants as well as the sale of shares by current shareholders of Unipro could have a depressing effect on the market price if a market develops. Sales of substantial amounts of our Common Stock, or the perception that such sales might occur, could adversely affect prevailing market prices of our Common Stock.

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, we are incorporated in non-U.S. jurisdictions, we conduct substantially all of our operations in China, and all of our officers reside outside the United States.*** We conduct substantially all of our operations in China through our wholly owned subsidiaries in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be



## **Table of Contents**

difficult or impossible for you to bring an action against us or against these individuals in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. As a result of all of the above, our public stockholders may have more difficulty in protecting their interests through actions against our management, directors or major stockholders than would stockholders of a corporation doing business entirely within the United States.

***The trading prices of many companies that have business operations only in China have been volatile which may result in large fluctuations in the price of our Common Stock and losses for shareholders.*** The stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many companies that have business operations only in China. These fluctuations have often been unrelated or disproportionate to the operating performance of many of these companies. Any negative change in the public's perception of these companies could depress our stock price regardless of our operating results. The market price of our Common Stock has been and may continue to be volatile. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. These factors include:

actual or anticipated variations in our quarterly operating results;

announcements of technological innovations or new products or services by us or our competitors;

announcements relating to strategic relationships or acquisitions;

additions or terminations of coverage of our Common Stock by securities analysts;

statements by securities analysts regarding us or our industry;

conditions or trends in the our industry; and

changes in the economic performance and/or market valuations of other industrial fire safety companies.

The prices at which our Common Stock trades will affect our ability to raise capital, which may have an adverse affect on our ability to fund our operations.

### ***Registration Rights and Potential Financial Obligations.***

Unipro has agreed to provide registration rights to the Investors for all shares issued under the Stock Purchase Agreement dated October 27, 2006 and upon the exercise Series A and Series B Warrants to investors ( Investors ) and certain shareholders of Unipro ( Certain Unipro Shareholders ) before the acquisition of CFPG who may not sell under Rule 144 (a maximum of 1,031,000 shares) and (iii) H.C. Wainwright and its employees who acquire shares under warrants.

If the registration of shares issued to Investors and shares issuable to Investors pursuant to Series A and Series B warrants is not effected by 150 days after December 5, 2006, the Company is subject to certain monetary obligations. The obligations are payments in an amount equal to 2.0% of the aggregate amount invested by each such Investor (based upon the number of Registrable Securities (defined as the shares issued under the SPA and issued and issuable under the Series A and Series B warrants) then owned by such Investor) and an amount equal to 1.0% of the aggregate amount invested by such Investor (based upon the number of Registrable Securities then owned by such Investor) for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective, up to a maximum amount of 24%. The maximum amount that could be invested by the Investors is \$12,165,633.



## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

If the registration of shares is not effected within 12 months, the Unipro shareholders will have a put at \$3.25 per share. The maximum amount of the repurchase obligation is \$3,459,144.

The sale of stock pursuant to these registration rights could have an adverse effect on the price of Unipro's Common Stock and the obligations to make payments and/or to repurchase shares could be financially harmful to Unipro.

***Our Common Stock may be considered to be a penny stock and, as such, the market for our Common Stock may be further limited by certain SEC rules applicable to penny stocks.*** To the extent the price of our Common Stock remains below \$5.00 per share or we have a net tangible assets of \$2,000,000 or less, our common shares will be subject to certain penny stock rules promulgated by the SEC. Those rules impose certain sales practice requirements on brokers who sell penny stock to persons other than established customers and accredited investors

## Table of Contents

(generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000). For transactions covered by the penny stock rules, the broker must make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to the sale. Furthermore, the penny stock rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices and disclosure of the compensation to the brokerage firm and disclosure of the sales person working for the brokerage firm. These rules and regulations adversely affect the ability of brokers to sell our common shares and limit the liquidity of our securities.

***We may seek to make acquisitions that prove unsuccessful or strain or divert our resources.*** We may seek to expand our business through the acquisition of related businesses and assets. We may not be able to complete any acquisitions on favorable terms or at all. Acquisitions present risks that could materially and adversely affect our business and financial performance, including:

the diversion of our management's attention from our everyday business activities;

the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and

the need to expand management, administration, and operational systems.

If we make such acquisitions we cannot predict whether:

we will be able to successfully integrate the operations and personnel of any new businesses into our business;

we will realize any anticipated benefits of completed acquisitions; or

there will be substantial unanticipated costs associated with acquisitions, including potential costs associated with environmental liabilities undiscovered at the time of acquisition.

In addition, future acquisitions by us may result in:

potentially dilutive issuances of our equity securities;

the incurrence of additional debt;

restructuring charges; and

the recognition of significant charges for depreciation and amortization related to intangible assets.

***We do not intend to pay any dividends on our Common Stock in the foreseeable future.*** We currently intend to retain all future earnings, if any, to finance our current and proposed business activities and do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. We may also incur indebtedness in the future that may prohibit or effectively restrict the payment of cash dividends on our Common Stock.

***We are not currently compliant with the Sarbanes-Oxley Act.*** The enactment of the Sarbanes-Oxley Act in July 2002 created a significant number of new corporate governance requirements and additional requirements may be enacted in the future. Since our Common Stock is currently quoted on the OTCBB, it is not currently subject to a number of such governance requirements. Although we expect to implement the requisite changes to become compliant with existing requirements, and new requirements when they do apply to us, we may not be able to do so, or to do so in a timely manner. If we do not come into compliance with the Sarbanes-Oxley Act corporate governance requirements, it may not be able to list its securities on either AMEX or Nasdaq markets in the event we ever attempts to do so.

***Certain stockholders can exert control over the Company and may not make decisions that further the best interests of all stockholders.*** Our officers, directors and principal stockholders (greater than 5% stockholders) together will own an aggregate of approximately 49.5% of our outstanding Common Stock (after conversion of the Series A Convertible Preferred Stock) on a fully diluted basis. Consequently, these stockholders, if they act individually or together, may exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change of control of us and might affect the market price of our Common Stock, even when a change of control may be in the best interest of all stockholders. Furthermore, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements which we would not otherwise consider.

**Table of Contents**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This prospectus and the documents to which we refer you and incorporate into this prospectus by reference contain forward-looking statements. In addition, from time to time, we or our representatives may make forward-looking statements orally or in writing. We base these forward-looking statements on our expectations and projections about future events, which we derive from the information currently available to us. Such forward-looking statements relate to future events or our future performance. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as may, will, should, expects, anticipates, contemplates, estimates, believes, plans, projected, predicts, potential or continue or the negative of these or similar terms. In evaluating these forward-looking statements, you should consider various factors, including those described in this prospectus under the heading Risk Factors beginning on page \_\_\_\_\_. These and other factors may cause our actual results to differ materially from any forward-looking statement. Forward-looking statements are only predictions. The forward-looking events discussed in this prospectus, the documents to which we refer you and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about us.

**USE OF PROCEEDS**

We will not receive any proceeds from the sale by the selling stockholders of the shares of common stock covered by this prospectus.

We originally received gross proceeds of \$8,000,464 for the sales of the shares of Common Stock and Class A and Class B Warrants to Investors on October 27 and December 5, 2006. The proceeds were used for general corporate purposes.

If the Class A and Class B and Placement Agent Warrants are exercised, we will receive gross proceeds of \$4,771,058. We plan to use proceeds, if any, for general corporate purposes.

**MARKET PRICE AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY**

**AND RELATED STOCKHOLDER MATTERS**

Shares of our Common Stock are listed on the OTC Bulletin Board under the symbol UPFS.OB. A new symbol will be provided to us after we change our name to China Fire & Security Group, Inc. We will issue a press release when the new symbol is issued.

The Bulletin Board is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than NASDAQ, and quotes for stocks included on the Bulletin Board are not listed in the financial sections of newspapers, as are those for the NASDAQ Stock Market.

Transactions in our Common Stock have been sporadic and do not constitute an active market. From the date, November 2, 2006, that we filed an 8-K after acquired CPFPG on October 27, 2006 to December 13, 2006, only about 20,000 shares have traded and on more than half of the trading days no shares have traded. During the period from November 2, 2006 to December 13, the high sale price was \$5.00 and the low sale price was \$4.02. Prior to the acquisition of CPFPG, we were a publicly traded shell and the transactions in our stock while we were a shell are not relevant. On December 15, 2006, the closing price was \$4.35.

**Table of Contents**

The Company has granted options to purchase 750,000 shares of Common Stock to its management personnel in 2006. The options have an exercise price of \$1.25. The Company intends to register the issuance of such shares on Form S-8.

There are Series A warrants to purchase 492,340 shares Common Stock at \$3.58 per share and Series B warrants to purchase 492,340 shares at \$4.88 per share. The warrants were issued to investors on October 27, 2006 and December 4, 2006. The warrants expire in 2011. There are also warrants to purchase 184,626 shares of Common Stock at \$3.25 per share, which were issued to the Placement Agent in the Offering. The Placement Agent warrants expire in 2009.

The Company has registered the resale of 4,695,375 shares issued and issuable on exercise of the warrants and if the Investors exercise their option under the SPA subject to the Investors option and issuable on exercise of warrants to H.C. Wainwright and its employees to investors in the offering and approximately 1,064,352 shares held by certain shareholders of the Company before the acquisition of CFPG who may not use Rule 144.

As of December 5, 2006, there are approximately 320 record holders of our Common Stock and 5 record holders of Series A Convertible Preferred Stock.

Prior to the acquisition of CFPG, the Company did not pay dividends. Prior to the Share Exchange, CFPG and its predecessors paid dividends of \$6,293,000 in 2005, and \$7,836,040 in 2006. We have no current plans to pay dividends. **There are no restrictions at the current time on the payment of dividends.**

**The Company**

The following table sets forth information with respect to the Company as it existed prior to the Share Exchange. The information is as of October 31, 2005.

| (a)   | (b)<br>Weighted-Average  | (c)   |
|---|--|---|
| Number of Securities<br>to be Issued<br>upon Exercise of<br>Outstanding<br>Warrants, Warrants<br>and Rights | Exercise<br>Price of<br>Outstanding<br>Options,<br>Warrants<br>and<br>Rights | Number of Securities<br>Remaining Available or<br>Future Issuance under<br>Equity Compensation Plans<br>(Excluding Securities<br>Reflected in Column (a)) |
| Equity compensation plans approved by security holders  | \$   | 941,238   |
| Equity compensation plans not approved by security holders  | N/A  | N/A   |
| <b>Total</b>  | <b>\$</b>  | <b>941,238</b>  |

**Description of Equity Compensation Plans Approved By Shareholders**

Prior to the Share Exchange, the Company had one equity compensation plan which is the Unipro Financial Services, Inc. 2003 Equity Incentive Plan. (the 2003 Stock Plan ). The 2003 Stock Plan was adopted and approved by shareholders in 2003. Pursuant to the 2003 Stock Plan, we reserved 1,000,000 shares of our common stock for issuance of which 941,238 remain available for future grants. To date we have issued 58,762 common shares under the plan. No shares are currently subject to options. The Plan will be terminated.

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

The 2003 Stock Plan allows our board of directors, or a committee established by our board, to award stock and stock options from time to time to our employees, officers, directors and consultants. The board has the power to determine at the time an option is granted whether the option will be an incentive stock option, which is an option which qualifies under Section 422 of the Internal Revenue Code of 1986, or an option which is not an incentive stock option. Incentive stock options may only be granted to persons who are our employees. Vesting provisions are determined by our board at the time options are granted. Options may be exercisable by the payment of cash or by other means as authorized by the committee or our board of directors.

In June, 2004, a registration statement covering the issuance of shares under the 2003 Stock Plan was declared effective by the Securities and Exchange Commission.

### **Sureland**

Sureland Industrial Fire Safety Co., Ltd. ( Sureland or the Company ) had no equity compensation plans as of December 31, 2005, the end of its last fiscal year.

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**General**

*We did not conduct any operations during periods up through September 30, 2006. However, we have included elsewhere in this information statement the historical consolidated financial statements of China Fire Protection Group Inc., our recently acquired subsidiary engaged in the design, development, manufacturing and sale of fire protection products and services for large industrial consumers in China.*

*The following discussion and analysis of financial condition and results of operations relates to the operations and financial condition reported in the financial statements of China Fire Protection Group Inc. The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of China Fire Protection Group Inc. for the three months ended September, 2006 and 2005 and for the nine months ended September 30, 2006 and 2005, and audited consolidated financial statements of China Fire Protection Group Inc. for the twelve months ended December 31, 2005 and 2004, and their respectively related notes included in this information statement.*

**Overview**

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

**Reorganization**

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

On September 1, 2006, we entered into a share exchange agreement, pursuant to which we will acquire all of the outstanding capital shares of China Fire Protection Group Inc. in exchange for a controlling interest in our common shares.

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

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

Sureland markets its industrial fire safety products and systems primarily to major companies in the iron and steel, power and petrochemical industries in China. It has also completed projects for highway and railway tunnels, wine distilleries, tobacco warehouses and a nuclear reactor. It is developing its business in the transportation, wine and tobacco, vessels, nuclear energy, and public space markets. Its products can be readily adapted for use on vessels and in exhibition halls and theatres. It plans to expand its marketing efforts to secure business in these industries.

## **Table of Contents**

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

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

Sureland has been ranked as the leading Chinese industrial fire safety company two times by the China Association for Fire Prevention based on six major factors including total revenue, growth rate, net profit, return on assets, investment in research and development and intellectual property. In fiscal year 2005, it accounted for approximately 2.5% of the total revenue from the industrial fire safety industry in China. Its key products include linear heat detectors and water mist extinguishers, whose sales volumes are the largest in China. Its products have been used by its customers in more than 20 provinces throughout China.

## **Critical Accounting Policies and Estimates**

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

### *Revenue recognition*

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

1. Revenue from system contracting projects comprises the agreed contract amount and appropriate amounts from change orders, claims and incentive payments. Contract costs incurred comprise direct material, direct labor and an appropriate proportion of variable and fixed construction overheads. When the outcome of a project can be estimated reliably, revenue from the contract is recognized on the percentage of completion method, which is based on the proportion of contract costs incurred to date compared to the estimated total cost of the relevant contract. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract consumers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.
2. Revenue from product sales is recognized when the goods are delivered and title has passed. Product sales revenue are presented net of a value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.
3. Revenue from the rendering of Maintenance Services is recognized when such services are provided.

### *Foreign currency translation*

The reporting currency of the Company is the US dollar. The Company uses their local currency, Renminbi (RMB), as their functional currency. Results of operations and cash flow are translated at average exchange



**Table of Contents**

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

*Plant and equipment*

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

Estimated useful lives of the assets are as follows:

|                           | <b>Useful Life</b> |
|---------------------------|--------------------|
| Buildings and improvement | 40 years           |
| Transportation equipment  | 5 years            |
| Machinery                 | 10 years           |
| Office equipment          | 5 years            |
| Furniture                 | 5 years            |

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

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

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

*Use of estimates*

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

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

**Table of Contents***Inventories*

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

*Accounts receivable*

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

**Results of Operations**

The following is a schedule showing results of our business. All references to the results of operations and financial condition are those of China Fire Protection Group.

***Comparison of Three Months and Nine Months Ended September 30, 2006 and 2005***

|  | Three months ended<br>September 30 |              | Nine months ended<br>September 30 |               |
|--|------------------------------------|--------------|-----------------------------------|---------------|
|  | 2006                               | 2005         | 2006                              | 2005          |
| Revenues                                     | \$ 8,218,482                       | \$ 6,094,226 | \$ 23,545,455                     | \$ 15,256,821 |
| Cost of revenues                             | 4,394,287                          | 3,275,728    | 11,420,177                        | 5,899,100     |
| Selling, general and administrative expenses | 2,663,346                          | 1,104,402    | 5,278,138                         | 3,270,815     |
| Interest expense                             | 35,888                             |              | 75,475                            |               |
| Income taxes                                 | (17,619)                           | 52,848       | 39,181                            | 101,566       |
| Net income                                   | 1,531,325                          | 1,702,751    | 7,349,361                         | 6,063,530     |
| Foreign Exchange adjustment                  | 210,268                            | 481,436      | 330,945                           | 481,436       |
| Comprehensive income                         | 1,741,593                          | 2,184,187    | 7,680,306                         | 6,544,966     |

See the accompanying notes to the unaudited condensed consolidated financial statements.

**Three Months Ended September 30, 2006 and 2005**

Total revenues were approximately \$8.2 million for the three months ended September 30, 2006 as compared to approximately \$6.1 million for the three months ended September 30, 2005, an increase of approximately \$2.1 million or 34%. The increase in revenues was primarily due to continuous demand for our products and solutions from our industrial customers, including iron and steel companies, power plants and petrochemical plants during the three months ended September 30, 2006.

Cost of revenues for the three months ended September 30, 2006 was approximately \$4.4 million or 53% of revenues as compared to \$3.3 million or 54% of revenues for the three months ended September 30, 2005. The cost of our own products are primarily composed of the costs of direct raw material (mainly copper wires, steel, and electronic devices), direct labor, depreciation and amortization of manufacturing equipment and facilities, and other overhead. The costs of projects include the cost of our products, the



## **Table of Contents**

products from third party vendors and the cost of outsourcing of most of the labor intensive installations. We tend to have higher margin on our own products and have lower margin on the projects which includes high percentage of products from third parties. The gross margin of 47% is at the below the Company's average gross margin of between 50% and 60%.

Operating expenses were approximately \$2.7 million for the three months ended September 30, 2006 as compared to approximately \$1.1 million for the three months ended September 30, 2005, an increase of approximately \$1.6 million or 145%. We have incurred a normal increase in sales which resulted in an increase of our sales force, sales related marketing activities and support staff. Selling expenses primarily consist of promotional and other sales and marketing expenses, salaries, commissions, and benefits for our sales and marketing personnel. We expect that our selling expenses will increase in absolute terms in the near term as we increase our sales efforts, hire additional sales personnel, set up additional branch offices and initiate additional marketing programs. The major increase of the operating costs is due to the expenses recorded for the share-based compensation. We issued 750,000 stock options to key management and employees on July 1, 2006 and as a result we recorded an expense of \$553,000 during the 3<sup>rd</sup> quarter. We also expect to incur additional general and administrative expenses as a result of being listed as a public company in the United States.

Interest expenses were \$35,888 for the three months ended September 30, 2006 and \$0 for the three months ended September 30, 2005. We entered a 6-month loan arrangement with Bank of Agriculture for RMB20,000,000 (or USD2,504,000) starting from March 21, 2006. The loan was paid off on September 22, 2006. The company also paid interest expenses for cashing in the notes receivable from customers for the three months ended September 30, 2006, and did not pay any interest for the three months ended September 30, 2005 since the company did not cash in any notes receivables.

Net profit was approximately \$1.5 million for the three months ended September 30, 2006 as compared to approximately \$1.7 million for the three months ended September 30, 2005. The decrease in the net profit was mainly due to the additional expenses related to share-based compensation (\$553,000). The operating profit without considering the expenses for the share-based compensation is \$2.1 million which is 22% higher than the three months ended September 30, 2005.

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

Currency translation adjustments resulting from this process amounted to \$210,268 and \$481,436 for the three months ended September 30, 2006 and 2005, respectively.

The comprehensive income, which adds the currency adjustment to the Net Income, were approximately \$1.7 million for the three months ended September 30, 2006 as compared to approximately \$2.2 million for the three months ended September 30, 2005, a decrease of \$0.5 million or 23%.

### **Nine Months Ended September 30, 2006 and 2005**

Total revenues were approximately \$23.5 million for the nine months ended September 30, 2006 as compared to approximately \$15.3 million for the nine months ended September 30, 2005, an increase of approximately \$8.2 million or 54%. China continues its industrialization process where there are still solid growth in major industrial sectors like the iron and steel, power plants, and petrochemical plants. We continue to succeed in delivering more and more of our products and total solutions to our industrial customers during the nine months ended September 30, 2006.

## **Table of Contents**

Cost of revenues for the nine months ended September 30, 2006 was approximately \$11.4 million or 49% of revenues as compared to \$5.9 million or 39% of revenues for the nine months ended September 30, 2005. The cost of our own products are primarily composed of the costs of direct raw material (mainly copper wires, steel, and electronic devices), direct labor, depreciation and amortization of manufacturing equipment and facilities, and other overhead. The costs of projects include the cost of our products, the products from third party vendors and the cost of outsourcing of most of the labor intensive installations. We tend to have higher margin on our own products and have lower margin on the projects which includes high percentage of products from third parties. Our gross margin for our contracts is within our normal level (between 50%-59%) in the nine months ended 2006 while we had a number of unusually high margin contracts in the nine months ended 2005.

Operating expenses were approximately \$5.3 million for the nine months ended September 30, 2006 as compared to approximately \$3.3 million for the nine months ended September 30, 2005, an increase of approximately \$2.0 million or 61%. The increase was partially due to an increase in sales which resulted in an increase of our sales force, sales related marketing activities and support staff. Selling expenses primarily consist of promotional and other sales and marketing expenses, salaries, commissions, and benefits for our sales and marketing personnel. We expect that our selling expenses will increase in absolute terms in the near term as we increase our sales efforts, hire additional sales personnel, set up additional branch offices and initiate additional marketing programs. The increase in operating expenses was also due to the expenses recorded for the share-based compensation. We issued 750,000 stock options to key management and employees on July 1, 2006 and as a result we recorded an expense of \$553,000 during the 3<sup>rd</sup> quarter. We also expect to incur additional general and administrative expenses as a result of being listed as a public company in the United States.

Interest expenses were \$75,475 for the nine months ended September 30, 2006 and \$0 for the nine months ended September 30, 2005. We entered a 6-month loan arrangement with Bank of Agriculture for RMB20,000,000 (or USD2,504,000) starting from March 21, 2006. The loan was paid off on September 22, 2006. The company also paid interest expenses for cashing in the notes receivable from customers for the nine months ended September 30, 2006, and didn't pay any interest for the nine months ended September 30, 2005 since the company didn't cash in any notes receivables.

Net profit was approximately \$7.3 million for the nine months ended September 30, 2006 as compared to approximately \$6.1 million for the nine months ended September 30, 2005, an increase of \$1.2 million or 20%. The increase in the net profit was mainly due to the increase in revenues from new customer in several industries and our continuous efforts in monitoring expenses. The operating profit without taking into consideration of expenses related to share-based compensation will be \$7.9 million, or 30% increase over the same period in 2005.

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

Currency translation adjustments resulting from this process amounted to \$330,945 and \$481,436 for the nine months ended September 30, 2006 and 2005, respectively.

The comprehensive income, which adds the currency adjustment to the Net Income, were approximately \$7.7 million for the nine months ended September 30, 2006 as compared to approximately \$6.5 million for the nine months ended September 30, 2005, an increase of \$1.2 million or 18%.

**Table of Contents****Comparison of Year Ended on December 31, 2005 and 2004:**

| <b>Year ended December 31</b>                | <b>2005</b>   | <b>2004</b>   |
|--|---------------|---------------|
| Revenues                                     | \$ 21,574,214 | \$ 16,457,194 |
| Cost of revenues                             | 9,037,972     | 7,181,115     |
| Selling, general and administrative expenses | 5,495,578     | 4,069,467     |
| Interest expense                             |               |               |
| Income taxes                                 | 202,920       | 128,654       |
| Net income                                   | 7,272,134     | 5,219,468     |
| Foreign exchange income                      | 483,590       |               |
| Comprehensive income                         | 7,755,724     | 5,219,468     |

Total revenues were approximately \$21.6 million for the year ended December 31, 2005 as compared to approximately \$16.5 million for the year ended December 31, 2004, an increase of approximately \$5 million or 31%. The increase was mainly due to our increased sales in the iron and steel industry.

Cost of revenues for the year ended December 31, 2005 was approximately \$9 million or 42% of revenues as compared to \$7.2 million or 44% of revenues for the year ended December 31, 2004. The increase was mainly due to increased sales. Our cost of revenues are primarily composed of the costs of direct raw material (mainly copper wires, steel, and electronic devices), direct labor, depreciation and amortization of manufacturing equipment and facilities, and other overhead.

Operating expenses were approximately \$5.5 million for the year ended December 31, 2005 as compared to approximately \$4.1 million for the year ended December 31, 2004, an increase of approximately \$1.4 million or 34%. The increase was mainly due to an increase in our sales which resulted in the increase of our sales force, sales related marketing activities and support staff. Selling expenses primarily consist of advertising, promotional and other sales and marketing expenses, salaries, commissions, and benefits for our sales and marketing personnel. We expect that our selling expenses will increase in absolute terms in the near term as we increase our sales efforts, hire additional sales personnel, set up additional branch offices and initiate additional marketing programs. We also expect to incur additional general and administrative expenses as a result of being listed as a public company in the United States.

Research and development expenses were historically included in general and administrative expenses. We maintained a small but highly efficient internal research and development team and relied on our joint research and development programs with two universities in China. These research and development programs allowed us to maintain lower research and development expenses while achieving satisfactory results. Our research and development expenses were \$815,986 in 2004 and \$1,448,725 in 2005 respectively. We expect that research and development expenses will increase in absolute terms in the near future as we hire additional engineers, purchase laboratory equipment and facilities and carry out additional research and development programs.

As company had no borrowings, interest expenses were \$0 for the year ended December 31, 2005 and the year ended December 31, 2004.

Net income was approximately \$7.3 million for the year ended December 31, 2005 as compared to approximately \$5.2 million for the year ended December 31, 2004, an increase of \$2.1 million or 40%.

Currency translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of shareholders' equity and amounted to \$483,590 and \$0 as of December 31, 2005, 2004, respectively. The balance sheet amounts with the exception of equity at December 31, 2005 were translated at 8.06 RMB to 1.00 USD as compared to 8.26 RMB at December 31, 2004. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the years ended December 31, 2005, and 2004 were 8.18 RMB and 8.26 RMB, respectively.

**Table of Contents**

The comprehensive income, which adds the currency adjustment to the Net Income, were approximately \$7.8 million for the year ended December 31, 2005 as compared to approximately \$5.2 million for the year ended December 31, 2004, an increase of \$2.6 million or 50%.

**Income Taxes**

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

1. If the enterprise is located in a specially designated region (New Technology Enterprise Development Zone), it enjoys a three-year income tax exemption and a 50% income tax reduction for the following three years.
2. If the enterprise is a manufacturing related joint venture with a foreign enterprises or a wholly owned subsidiary of a foreign enterprise, it enjoys a two-year income tax exemption from the year that it is profitable and a 50% income tax reduction for the following three years.

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

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

Sureland Creation was granted income tax exempt in the period between July 12, 2002 and December 31, 2004 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2005 to December 31, 2007.

Beijing Fire Safety was granted income tax exempt in the period between March 18, 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

Beijing Juan Construction was granted income tax exempt in the period between May 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

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

The provision for income taxes for the period ended September 30 consisted of the following:

|   | 2006             | 2005              |
|---|------------------|-------------------|
| Provision for China Income Tax          | \$ 35,619        | \$ 92,333         |
| Provision for China Local Tax           | 3,562            | 9,233             |
| <b>Total provision for income taxes</b> | <b>\$ 39,181</b> | <b>\$ 101,566</b> |





**Table of Contents**

The provision for income taxes for the period ended December 31 consisted of the following:

|   | 2005              | 2004              |
|---|-------------------|-------------------|
| Provision for China Income Tax          | \$ 184,473        | \$ 116,958        |
| Provision for China Local Tax           | 18,447            | 11,696            |
| <b>Total provision for income taxes</b> | <b>\$ 202,920</b> | <b>\$ 128,654</b> |

**Liquidity and Capital Resources**

As of September 30, 2006, we had working capital totaling \$3.7 million including cash and cash equivalents of \$2.2 million.

Net cash provided by operating activities totaled approximately \$3.3 million for the year ended December 31, 2005 as compared to approximately \$3.2 million for the year ended December 31, 2004. Net cash provided by operating activities totaled approximately \$8.4 million for the nine months ended September 30, 2006, as compared to Net cash used by operating activities for approximately \$0.7 million for the nine months ended September 30, 2005.

Net cash used in investing activities for the year ended December 31, 2005 totaled \$0.5 million for the purchase of property and equipment. Net cash used in investing activities for the year ended December 31, 2004 totaled \$0.8 million for the purchase of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2006 totaled \$0.7 million, including \$0.4 million for the purchase of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2005 totaled \$0.3 million, including \$0.3 million for the purchase of property and equipment.

Net cash used in financing activities for the year ended December 31, 2005 totaled \$6.3 million. Net cash used in financing activities for the year ended December 31, 2004 was \$2.3 million. As a result of the total cash activities, net cash decreased \$3.2 million from December 31, 2004 to December 31, 2005. Net cash used in financing activities for the nine months ended September 30, 2006 totaled \$7.9 million. Net cash provided by financing activities for the nine months ended September 30, 2005 was \$0.7 million.

As a result of the total cash activities, net cash increased \$0.04 million from September 30, 2005 to September 30, 2006.

**Off-Balance Sheet Arrangements**

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

## **Table of Contents**

### **BUSINESS OF THE COMPANY**

#### **Overview**

We are engaged primarily in the design, development, manufacture and sale in China of a variety of fire safety products for the industrial fire safety market and of design and installation of industrial fire safety systems in which we use our own fire safety products. To a minor extent, we provide maintenance services for customers of our industrial fire safety systems. Our business is primarily in China, but we have recently begun contract manufacturing products for the export market and we have begun to provide a fire safety system for a Chinese company operating abroad.

We market our industrial fire safety products and systems primarily to major companies in the iron and steel, power and petrochemical industries in China. We have also completed projects for highway and railway tunnels, wine distilleries, tobacco warehouses and a nuclear reactor. We are developing our business in the transportation, wine and tobacco, vessels, nuclear energy, and public space markets. Our products can be readily adapted for use on vessels and in exhibition halls and theatres. We plan to expand our marketing efforts to secure business in these industries.

We have internal research and development facilities engaged primarily in furthering fire safety technologies. We believe that our technologies allow us to offer cost-effective and high-quality fire safety products and systems. We have developed products for industrial fire detecting and extinguishing. We believe that we are the only manufacturer in China which has successfully developed a comprehensive line of linear heat detectors.

We operate sales and liaison offices in more than 20 cities in China.

We have been ranked as the leading Chinese industrial fire safety company two times by the China Association for Fire Prevention based on six major factors including total revenue, growth rate, net profit, return on assets, investment in research and development and intellectual property. In fiscal year 2005, we accounted for about 2.5% of the total revenue from the industrial fire safety industry in China. Our key products include linear heat detectors and water mist extinguishers, whose sales volumes are the largest in China. Our products have been used by our customers in more than 20 provinces throughout China.

#### **Our Industry**

##### *The Industrial Fire Safety Industry*

The fire safety industry can be generally divided into three major segments: residential, commercial and industrial. The industrial fire safety business requires more technical expertise than the residential or commercial fire safety businesses due to the rugged and hazardous conditions of the industrial environment. Designers must consider myriad and complex technologies, safety factors, as well as, unique fire hazard risks associated with various areas of production. Designers must also contend with adverse environmental problems such as humidity, dust and electro-magnetic interference to develop solutions to analyze and mitigate the spread of fire and chain reactions which we more likely to occur in the automated industrial production environment.

Along with China's modernization drive, its economy has witnessed significant growth in the past three decades, which brought about a rapid growth in its manufacturing capacity. Moreover, due to its investment environment and cheap labor, China has attracted many manufacturers from the developed countries. The increasing industrial capacity of China has caused, and is anticipated to cause, a high level of demand for industrial fire safety products and services. According to a study published by China's Building Mechanical & Electrical Engineering Magazine, China's total revenues from industrial fire safety products and services in 2005 was approximately US\$900 million and the annual growth rate for the next five years is expected to be more than 11%.

The Chinese government began to attach increasing importance to industrial fire safety in the 1990's due to the increased loss of lives and properties as a result of fires. The government enacted various laws and issued regulations on fire safety of which the most important include the Fire Safety Law of 1998 and the Safe Production Law of 2002. These laws, while expressing the government's increased emphasis on fire safety, can be vague and are not themselves responsible for the increase in demand. More important to the demand for products and services are various industry standards for fire safety systems design and products that have recently been adopted.

The products used by the fire safety industry have historically been foreign products, which have been superior in technology and quality. In recent years, Chinese products have improved in terms of technology and quality and are being increasingly accepted. The price of Chinese products has also become a competitive advantage.



## **Table of Contents**

The industry for the design and installation of fire safety systems is fragmented with no major players. We believe that there is an opportunity for consolidation and expansion so that major players can emerge.

### **Our Leadership Position in the Industry**

We began in 1995 as the first specialized industrial fire company in China. We believe that we have established ourselves as the recognized leader in the industrial fire safety business in China as evidenced by the following:

Our officers are on a number of drafting committees on industry standards such as Design of Fire Safety Standards for Metallurgy, Iron and Steel Enterprises and Standardization for Fire Safety Designs in Thermal Power Generating Plants and Transformer Stations;

We have penetrated the iron and steel, power and petrochemical markets. Our customers consist of leading companies in those industries, including Anshan Steel, Wuhan Steel, PetroChina, Sinopec, and China Changjiang SanXia ( Three-Gorges Project ), and

We have developed proprietary technologies for industrial fire safety products which have been embodied in a series of patents covering fire detecting devices, fire alarm control and fire extinguishing devices and numerous copyrights for software that controls fire detecting and alarm devices. These technologies have enabled us to become the leader in technologies among Chinese industrial fire safety companies and to compete head to head with foreign industrial fire safety companies which market and sell industrial fire safety products in China. Our linear heat detectors are more advanced technologically and are our best selling product in the China market. These technologies also enable us to manufacture a wide range of industrial fire safety products including fire detecting, fire alarm and fire extinguishing devices. We manufacture most of the high-end products we use in our projects and source other products that have lower margins.

### **Our Products and Services**

Our major customers are in the iron and steel (approximately 50% of revenues), power (approximately 25%) and petrochemical (approximately 15%) industries.

#### *Products*

In 2005, revenues from the sale of products manufactured by us accounted for 44% of total revenues, while services accounted for 53% and maintenance services accounted for 3% of total revenues. Such revenues do not include the sale of our products in connection with our service business, the design and installation of fire protection systems. We manufacture the following products, which can be divided into the three categories according their function:

Fire Detecting Products. The products include:

Linear heat detectors mainly used in various industrial settings

Infrared flame detectors mainly used in the petrochemical industry

Combustible and inert gas detectors mainly used in the petrochemical and coal industries

Optical heat detectors- mainly used in various industrial settings

Fire Alarm Control Device

Water Mist/Sprinkler Systems

We focus on the production of high-quality and low-cost products and on increasing our sales volume of our self-developed products, which have a gross margin higher than products sourced from third parties.

Although we have focused our efforts on the iron and steel, power, and petrochemical industries, we have developed new products for other industries, including infrared detectors and inert gas extinguishers. Infrared detectors are mainly used for the petrochemical industry and inert gas extinguishers are particularly suitable for electronic and telecom equipment. We have completed some testing for computer labs and telecom switch boards and routers and received some positive results. Our business plan is to increase the sale of high-end products for such markets.

**Table of Contents**

We have established quality assurance systems throughout the company and achieved ISO9001:2000 certification since 2001. ISO9001:2000 refers to a quality management system which demonstrates its ability to consistently provide product that meets customer and applicable regulatory requirements and aims to enhance customer satisfaction. We believe that these certifications are recognitions of our commitment to and efforts in implementing and maintaining a quality management system in the design, manufacturing and sales of our fire safety products.

The following sets forth customers that in 2005 accounted for more than 5% of sales of our products. The amounts and percentages do not include sales of our products as part of systems:

**Major Customers of Our Fire Safety Products**

| Name                      | Industry       | Sales in<br>USD (\$1,000) | Percentage of<br>Total Revenue |
|---------------------------|----------------|---------------------------|--------------------------------|
| Beijing Huayou Gas Co.    | Petrochemical  | 986                       | 10.20%                         |
| Tonghua Iron & Steel      | Iron and Steel | 766                       | 7.92%                          |
| Jinan Iron & Steel        | Iron and Steel | 653                       | 6.74%                          |
| Anshan Iron & Steel       | Iron and Steel | 505                       | 5.22%                          |
| Shanxi Gujiao Power Plant | Power          | 495                       | 5.11%                          |
|                           |                | <b>Total</b>              | <b>35.19%</b>                  |

*Services*

We design and install fire protection systems. A fire protection system consists of three major components: fire detection, fire alarm control, and sprinkler systems. In most cases, we design and install all three components, but in some cases, only one or two components. The price of systems varies with the size and complexity of the installation, ranging from \$30,000 to \$13 million. In 2005, we designed and installed more than 20 systems. The design and installation of a system can take from one month to three years. Most of the systems (about 70%) take less than six months to complete, while 20% of systems require more than one year to complete. Revenues from systems typically can be broken down as follows: 70% from products manufactured by us; 20% from products manufactured by third parties; and 10% from services (the design and installation). The price of our own products incorporated into the systems we design and install is similar to that sold directly to our customers. The markup for third party products is approximately 20-30%.

We have long-term relationships with most of our customers. Our main customers for systems, based on sales revenue and the percentage that each contributed to our 2005 revenues were as follows (the amounts and percentages include sales of our products as part of the systems):

| Name                 | Industry       | Amount<br>of Sale<br>(\$1,000) | Percentage<br>of Total<br>Revenue |
|----------------------|----------------|--------------------------------|-----------------------------------|
| Anshan Iron & Steel  | Iron and Steel | 2,050                          | 17.08%                            |
| Wuhan Iron & Steel   | Iron and Steel | 1,256                          | 10.07%                            |
| Taiyuan Iron & Steel | Iron and Steel | 1,033                          | 8.80%                             |
| Baotou Iron & Steel  | Iron and Steel | 894                            | 7.62%                             |
| Jinan Iron & Steel   | Iron and Steel | 873                            | 7.44%                             |
|                      |                | <b>Total</b>                   | <b>51.01%</b>                     |

**Table of Contents****Our Intellectual Property**

We have developed our own technologies for our products and services. We own 28 issued patents and have three pending applications in China. These patents are related to fire detecting, system control, and fire extinguishing technologies as shown below.

| <b>Product</b>                 | <b>Patents Issued</b> | <b>Patents Pending</b> |
|--------------------------------|-----------------------|------------------------|
| Linear detectors               | 12                    | 1                      |
| Infrared flame detector        | 1                     |                        |
| Water/mist nozzles             | 12                    | 1                      |
| Remote system control device   |                       | 1                      |
| Fire alarm control device      | 1                     |                        |
| Foam fire extinguishing device | 1                     |                        |
| Fire prevention pillow         | 1                     |                        |

We own six copyrights for software used for detecting assemblies and control modules. We have developed proprietary software to provide localized and network-based fire detection and monitoring solutions. We believe that we are the first in the industry in China to provide customers with remote system monitoring services based on our network-based solutions. From our centralized monitoring center, we can see any status change (major alarm, critical alarm, fire alarm, etc.) of major components of each system, upload information, and take appropriate actions if needed. We have been granted copyrights for such software by China's State Bureau of Copyrights.

We have thirteen registered trademarks, approved by the State Administration for Industry and Commerce of China, for our products and services.

We currently own two internet domain names [www.sureland.com.cn](http://www.sureland.com.cn) and [www.sureland.com](http://www.sureland.com).

**Our Research and Development Efforts**

We currently have approximately 30 members on our R&D team. Most of our R&D staff have been working in the field of fire safety products for more than five years. Mr. Weishe Zhang, our Director of R&D, has engaged in research in fire safety products for more than ten years.

Our R&D activities involve improving existing products, developing new products, designing better and more efficient fire safety systems, and developing new applications for such products and systems. Currently, we are developing new technologies for detecting gases and for extinguishing fire with inert gas. We plan to conduct R&D to develop fire prevention material and paints in the future. Our R&D activities also involve further developing and improving our core manufacturing technologies so that we can expand our product lines and reduce overall costs. We have entered into joint research and development agreements and other arrangements with China Mineralogy University and Xi'an Jiaotong University to develop technologies. Under the agreement with Xi'an Jiaotong University, we have exclusive ownership to any technology developed. Under the agreement with China Mineralogy University, we jointly provide research training for the graduate students but with an exclusive right to use any technologies developed. These efforts have led to the successful development of numerous peripheral products for our fire safety systems. To enhance our R&D capability, we constructed a new R&D center in 2006 which consists of a new 1,800 square meter building with new R&D equipment. We expect that it will be completely operational by the end of 2006. The total spending for the construction and equipment was around \$1 million. More funds will be allocated for purchasing additional equipment. The center is devoted to our research and development efforts and for the formation from these developments of integrated manufacturing practice and processes. The center will be a base for training research and technical personnel and for developing additional proprietary technologies.

We project that the number of R&D staff will increase by 50% in two years.

## **Table of Contents**

### **Our Marketing Efforts**

Currently, we have established our position as the leading Chinese supplier of fire safety products and services for the iron and steel, power, and petrochemical industries. We have installed 70% of the large systems in the steel industry. Our business plan is to maintain our lead and expand our market share in the iron and steel, power and petrochemical markets, while targeting several new market segments we believe offer growth opportunities for us, including transportation (highways, subways and railways), wine (distilleries and breweries), tobacco (cigarette factories), and nuclear energy, ship, non-ferrous metal plants, and public space (exhibition halls, stadiums and theaters). We designed and installed a fire safety system for China's Nuclear Energy Institute and we have installed fire safety systems for the warehouses of distilleries and cigarette factories.

Our marketing efforts have made us one of the leading suppliers of fire safety products and services in China. All of our products and services are marketed and sold through our relationship with government agencies which are responsible for certain industries and the research and design institutes under those agencies which design and plan new manufacturing facilities in several industries. Under the Chinese law and regulations, a company which plans to install a fire safety systems must apply to the relevant government agency for the approval of the project. Due to our relationship with these agencies, we are able to receive early information about projects under consideration and prepare for the bidding on a timely basis. Our relationship with the research and design institutes under those agencies better position us for receiving subcontract assignments for fire safety systems when they design a new plant or facility. We also market and sell our products and services directly to manufacturers in local markets. Our main method of selling our products is direct marketing supplemented with indirect marketing. About 80% of our contracts are procured through an open bidding or invitation only bidding process while approximately 20% of our contracts are secured without bidding. Usually contracts secured without bidding provide us with higher margins.

Our linear heat detectors and water/mist extinguishers have received the UL certification. We have entered into an agreement with Xian Sensor Electronics Co., Ltd., a China subsidiary of Honeywell, for OEM manufacturing of linear heat detectors for Honeywell. We are also negotiating with other multinational companies for similar arrangements.

We are actively expanding our marketing network into other parts of China. We have established sales offices and liaison offices in more than 20 locations. We project that we will double the number of sales and liaison offices in three years mainly through internal growth.

Our sales team has approximately 50 members. To expand distribution channels and increase our market share, we regularly attend industrial exhibitions organized by local and national industrial associations. We run advertisements in major industry journals, magazines and catalogues. We also run advertisements on industry websites including [www.china-fire.com](http://www.china-fire.com) and [www.fire.hc360.com](http://www.fire.hc360.com).

### **Material and Parts Supply**

We only manufacture products that provide high margins while, in our service business, subcontracting those products with low margins. Given the importance to our business of key materials and parts, their purchasing and management are key activities for us. We carefully manage our purchasing efforts and have established company policies involving materials and parts procurement. The cost of materials for our own products is around 90% of the total production cost.

#### *Supplier Management System*

We have adopted measures to reduce risks in materials and parts supply, including 1) obtaining better services and higher quality, 2) diversifying suppliers and supply sources, and 3) seeking long-term contracts with suppliers.

#### *Purchasing Procedures*

Our production department work with our quality and procurement departments to produce a list of qualified suppliers based quality, price, technical competency and capacity. Purchasing transactions are sometimes conducted in accordance with a procedure for bidding invitations. Potential suppliers are evaluated on their proposed terms technical specifications, price, payment terms and timing for delivery. After validation of the various suppliers' service and capabilities for stable supply, we acquire the needed materials and parts from the supplier offering the best terms. Our procurement department establishes an oversight process by appointing individuals to conduct periodic market research of key price points. There is a standard procedure for conducting such bidding process and accepting the bids to insure that the all purchasing procedures are being strictly adhered to. We enter into long-term contracts with some suppliers to lock in prices and send purchase orders for each delivery when necessary.





**Table of Contents***Major Suppliers*

The table below lists our top five suppliers as of December 31, 2005.

*Major Suppliers of Materials and Parts for Our Own Products*

| <b>Item</b>                  | <b>Suppliers</b>                      | <b>Amount Purchased in 2005 (\$1,000)</b> | <b>Percentage of Total Purchase in 2005</b> |
|------------------------------|---------------------------------------|---|---|
| Sprinklers, Valves           | Jiaozuo Changjiang Non-Ferrous Metals | 303                                       | 12.68%                                      |
| PC boxes and detectors boxes | Langfang Tianhong Electric Alliances  | 190                                       | 7.96%                                       |
| Electronic parts             | Beijing Hongerda Technology           | 171                                       | 7.16%                                       |
| Power modules                | Guangzhou Jinshengyang Technology     | 133                                       | 5.54%                                       |
| Electronic parts             | Beijing Yuanyihang Technology         | 121                                       | 5.09%                                       |
|                              | <b>Total</b>                          |   | <b>38.43%</b>                               |

*Major Suppliers for Third Party Products of Our Fire Safety Systems*

| <b>Item</b>                         | <b>Suppliers</b>                          | <b>Amount Purchased in 2005 (\$1,000)</b> | <b>Percentage of Total Purchases in 2005</b> |
|-------------------------------------|---|---|--|
| Fire detecting devices              | Xi an Sensor Electronics                  | 658                                       | 8.10%  |
| Gas Fire Extinguishing Equipment    | Hangzhou Xinjiyuan Fire Safety Technology | 603                                       | 7.43%  |
| Fire detecting and alarming devices | Shanghai Lianxin International Trade      | 519                                       | 6.40%  |
| Combustible gas detectors           | InSCO Sensors (Shanghai)                  | 359                                       | 4.42%  |
| Cables                              | Jiangsu Huaguang Cable and Electronics    | 350                                       | 4.32%  |
|                                     | <b>Total</b>                              |   | <b>30.67%</b>                                |

**Our Competition**

We compete primarily in the fire safety products market and the services market (design and installation of fire safety systems).

*Products*

The principal competitors in the products market are foreign competitors. Foreign-made products have historically had an advantage over Chinese-made products because of superior technology and quality. We believe that the demand for foreign products has begun to decline because of improvements in Chinese technology and as the technology and quality gaps narrow, the price advantage that Chinese-made products typically have has increased demand for Chinese-made products. The principal foreign-based competitors are:

| <b>Competitor</b> | <b>Products</b>  | <b>Market share in the detector market</b> |
|-------------------|--|--|
| Kidde             | Analogue linear detectors and a small amount of water/mist extinguishers | 25%  |
| ProtectoWire      | Digital linear detectors   | 15%  |



**Table of Contents**

Our market share for the detector segment is approximately 30% which we believe is larger than that for either Kidde or ProtectoWire. We do not compete in the alarm control or the fire extinguishing segments because these products tend to have lower margins. We only manufacture alarm control and fire extinguishing products for use in the systems we design and install for our customers. Our effective market share for alarm control and fire extinguishing products is less than 10%. Foreign products are usually priced higher than Chinese made products mainly due to their higher labor cost abroad and greater name recognition because these products have been sold in China for a long time. However, we have managed to increase our market share to approximately 30% of the detector sector segment mainly due to our improved and advanced technologies, a broader range of products and our expertise and knowledge of the industry in China. Moreover, our position on the standard setting bodies has provided us with an additional competitive advantage. All our products meet or exceed both the China and US standards.

The principal Chinese-based competitors are:

| <b>Competitor</b>  | <b>Products</b>         | <b>Market share<br/>in the detector market</b> |
|--------------------|-------------------------|--|
| Wuxi Tianyou       | Digital linear detector | 2%   |
| Shenyang Tongshida | Digital linear detector | 4%   |

Our China-based competitors tend to focus on low-end and technologically less sophisticated products which have lower quality and are not suitable for large projects. Although currently we successfully compete with foreign-based industrial fire safety companies, there is no assurance that we will continue to be able to do so in the future. Foreign competitors could establish manufacturing facilities in China and narrow their price gap to better compete with us. However, we believe we will be able to maintain or even increase our market share due to our technological lead over our competitors, our track record in, and knowledge of, the industry. Moreover, foreign-based companies may find it difficult to catch up with the industry standards and technical guidelines which we assist in drafting.

*Services*

The market for the design and installation of fire safety systems is served by numerous small competitors, of which we have been recognized as the largest two times in a row by the China Association of Fire Prevention based on numerous significant factors including total revenue and profit. These rankings are done every two years by this association.

| <b>Competitor</b>                | <b>Market Focus</b>        |
|----------------------------------|----------------------------|
| Nanjing Fire Safety Products Co. | Residential and Commercial |
| Zhongan Fire Safety Engineering  | Commercial                 |
| Minimax                          | Industrial                 |

We believe that our leading position in the industry has enabled us to win a high percentage of our bids, which is around 60-70% of bids in the iron and steel industry. We compete on price, quality of products, expertise and capability to complete the job in time. These factors play a less significant role in bidding for smaller jobs. We believe that the fact that we use our own products adds to our competitive strengths because our customers have quality concerns over third party products used for the systems we design and install.

We plan to acquire other industrial fire safety companies in order to expand our product base and increase our revenue stream. Moreover, we anticipate these potential acquisitions will broaden our customer base. Due to their disadvantage in labor costs, foreign competitors do not engage in system integration.

## **Table of Contents**

### **Regulation of Products and Services**

In China, fire safety products and systems must meet certain quality standards and must be certified by the Chinese government. All of our products have been certified. In addition, contractors and designers of fire safety systems must be certified by China Ministry of Construction. We have received such certification.

Chinese regulations require that an enterprise procure a Production Safety License from the Ministry of Construction before it can provide engineering services in construction projects and plant construction. This certification ensures that an enterprise follow proper production safety procedures in its own manufacturing and in its engineering services to clients. We have been granted a Production Safety License from Beijing Municipal Construction Commission.

Chinese regulations also require that a company have an Engineering Certification from the Ministry of Public Safety before it can provide fire safety related engineering and installation services. Companies which have obtained a Class A Engineering Certification can provide nationwide fire safety related engineering and installation services whereas companies with a lower class certification can only provide services in the province where they are located. There are only a few companies in China which are qualified for Class A certification. We have been granted a Class A Engineering Certification from the Ministry of Public Safety. Although there are a few other companies that have been granted a Class A Certification, they mainly focus on residential and/or commercial market segments.

### **Our Employees**

As of September 30, 2006, we employed around 320 full-time employees. Approximately 10% of the employees are management personnel, 10% are R&D staff members and 17% are sales staff members. Approximately 67.5% of our employees hold a college degree or above.

Under Chinese law, our employees have formed trade unions which protect employees' rights, aim to assist in the fulfillment of our economic objectives, encourage employee participation in management decisions and assist in mediating disputes between us and union members. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

As required by applicable Chinese law, we have entered into employment contracts with all of our employees. We have also entered into a confidentiality agreement with all of our employees under which such employees are prohibited from disclosing confidential information of the Company or using it for other purposes than the benefit of the Company. Directors, officers, mid-level managers and some key employees in sales and R&D are required to sign a non-compete agreement which prohibits them from competing with the Company while they are employees of the Company and within two years after their employment with the Company is terminated.

Our employees in China participate in a state pension arrangement organized by Chinese municipal and provincial governments. We are required to contribute to the arrangement at the rate of 20% of the average monthly salary. In addition, we are required by Chinese law to cover employees in China with other types of social insurances. Our total contribution may amount to 30% of the average monthly salary. We have purchased social insurances for all of our employees. The expense related to the social insurance was approximately \$123,865 and \$76,479 for the fiscal year 2005 and 2004, respectively. In the event that any current employee, or former employee, files a complaint with the Chinese government, not only will we be required to purchase insurance for such employee, we may be subject to administrative fines. We believe that such fines, if imposed, are immaterial.

### **Our Facilities**

All land in China is owned by the State. Individuals and companies are permitted to acquire rights to use land or land use rights for specific purposes. In the case of land used for industrial purposes, the land use rights are granted for a period of 50 years. This period may be renewed at the expiration of the initial and any subsequent terms. Granted land use rights are transferable and may be used as security for borrowings and other obligations. We currently own land use rights to approximately 23,700 square meters of land consisting of R&D center, manufacturing facilities, employee quarters, warehouses and office buildings in Beijing, China. We currently also lease an office space of more than 2,000 square meters in Zhongguancun High-Tech Park, Beijing, China, which houses our marketing and technical support staff.

The main equipment and machinery of our business include line detector manufacturing assembly lines, machine tools for metal parts, equipment for electronics products, etc.



**Table of Contents**

We believe that all our properties and equipment have been adequately maintained, are generally in good condition, and are suitable and adequate for our business. We plan to purchase additional equipment this year to increase capacity.

**Legal Proceedings**

We are subject to lawsuits that typically accompany our business. No lawsuit that is currently pending or threatened that is other than routine litigation that is incidental to the business. No pending lawsuit is material to our business and no suit has been threatened that, if filed, would be material.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following individuals are our officers and directors. They were appointed upon the completion of the share exchange between CFPG and Unipro. The officers and directors below were not affiliated with Unipro prior to the Share Exchange.

| Name        | Age | Position  |
|-------------|-----|---|
| Gangjin Li  | 44  | Chairman of the Board                               |
| Brian Lin   | 41  | Director and Chief Executive Officer                |
| Tieying Guo | 49  | President, Sureland Industrial Fire Safety, Co. Ltd |
| Qihong Wu   | 73  | Director  |

**Mr. Gangjin Li, Chairman of the Board.** Mr. Li has served as our Chairman of the Board of the Directors since October 2006. Mr. Li is the founder of Sureland Industrial and its subsidiaries, and has served as its director and General Manager since its formation in 1995 and Chairman of the Board since 2000. Prior to founding Sureland in 1995, he was a Director of Engineering in the 20th Metallurgic Construction Company of the Ministry of Metallurgy. Mr. Li was a pioneer in the industrial fire safety industry in China with over 15 years experience in the industry. Mr. Li is an executive director of China Fire Protection Association (CFPA), and vice-chairman of Electrical Fire Prevention Committee of CFPA. Mr. Li is also a member of the US-based National Fire Protection Association. In recognition of his leadership in bringing Sureland to be the No. 1 company in China's industrial fire safety industry, Mr. Li was awarded by City of Beijing an Beijing Outstanding entrepreneur Beijing 5th Torch of Science in 2002. Mr. Li holds a bachelor's degree from Wuhan University of Science and Technology and a Master degree in management science from Beijing University.

**Mr. Brian Lin, Chief Executive Officer.** Mr. Lin has served as a director since October, 2006 and as our Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer since October 2006. Mr. Lin served as Vice President of Sureland since January 2006. Mr. Lin is an early stage investor and co-founder of Sureland and has been providing strategic guidance to Sureland since its inception. Prior to joining the company, from 2001 to 2005, Mr. Lin served as CEO of Beijing Linkhead Technologies, a company that he co-founded in 1994 and was sold to PacificNet Inc. (Nasdaq PACT) in December 2003. Prior to Linkhead, Mr. Lin was Director of R&D, Value-added Services Division of UTStarcom (Nasdaq UTSI) and held various management and technical positions with Nortel Networks, Motorola and Tandem Telecom in the US. Mr. Lin received a bachelor's degree in electrical engineering from Huazhong University of Science and Technology and a Master's degree in Electrical Engineering from University of Toronto, Canada in 1989.

**Ms. Tieying Guo, President, Sureland** Ms. Guo has served as a director since October, 2006 and as President of Sureland since July 2006. Ms. Guo has over twenty years experience in China's Fire Protection Industry where she worked for the Ministry of Public Security. Prior to joining Sureland, from January 2004 to July 2006, Ms. Guo was Executive Vice President of China Fire Group, a fire protection equipment and engineering company in China and has been listed in Hong Kong Stock Exchange since 2003. Ms. Guo provided key strategic guidance in all the M&A activities for China Fire Group in China. From 2000 to 2004, Ms. Guo held management positions with China Huandao Group, the largest state-owned group which owned almost all the largest state-owned fire protection companies in China.

**Mr. Qihong Wu, Director.** Mr. Wu has served as a director since October 2006. Mr. Wu served as director of Sureland from April 2002 to September 2006. From 1993 to present, Mr. Wu has served as a committee member of China Fire Prevention Association, and vice chairman of Asia-Australian Fire Hazard Science and Technology Club. Mr. Wu was the Chief Engineer of the Fire Prevention Bureau of the Ministry of Public Security and a supervisor at the Academic Committee of China Fire Prevention Association. Mr. Wu Qi Hong graduated from Tongji University in 1955 with a bachelor's degree.



**Table of Contents****Executive Compensation**

The following table sets forth the compensation paid by us to our chief executive officer and to all other executive officers of CFPG for services rendered during the fiscal years ended December 31, 2005, 2004 and 2003. Gangjin Li was appointed as Chairman of the Board on October 27, 2006. The compensation amounts paid to Mr. Li reflect compensation paid to him by the operating subsidiaries of China Fire Protection Group Ltd. and its subsidiaries during the reported periods. No officer of Unipro earned more than \$100,000 during any of the reported periods.

| Name and Position    | Year | Annual Compensation |       |       | Long Term Compensation       |                                  |                        |
|----------------------|------|---------------------|-------|-------|------------------------------|----------------------------------|------------------------|
|                      |      | Salary              | Bonus | Other | Restricted Stock Awards (\$) | Common Shares Underlying Options | All Other Compensation |
| Gangjin Li, Chairman | 2005 | \$ 12,000           | \$    |       |                              |                                  |                        |
|                      | 2004 | \$ 12,000           |       |       |                              |                                  |                        |
|                      | 2003 | \$ 9,000            |       |       |                              |                                  |                        |

**Employment Agreements**

We plan to enter into employment agreements at market rates as determined by the board of directors and confidentiality agreements with officers in the near future.

**Stock Options**

CFPG has issued stock options to purchase common stock to the executives and management team of Sureland Industrial Fire Safety Limited on July 1, 2006. The options were assumed by the Company as options to purchase common stock on a one-to-one basis. The total number of option shares is 750,000. These options were vested immediately with a strike price of \$1.25 per share. The expiration date of these options is July 1, 2016.

**Option Grants in 2006 Fiscal Year**

| Name        | Number of Securities Underlying Options Granted (#) | Individual Grants                                      |  | Exercise or Base Price (\$/Sh) | Expiration Date |
|-------------|---|--|--|--------------------------------|-----------------|
|             |   | % of Total Options Granted to Employees in Fiscal Year |  |                                |                 |
| Gangjin Li  | 300,000   | 40.0%  |  | \$1.25                         | 7-1-2016        |
| Brian Lin   | 150,000   | 20.0%  |  | 1.25                           | 7-1-2016        |
| Tieying Guo | 20,000  | 2.67%  |  | 1.25                           | 7-1-2016        |

**Table of Contents****Aggregated Option Exercises in 2005 Fiscal Year and Fiscal Year-End Option Values**

| Name | Shares<br>Acquired on<br>Exercise | Value<br>Received | Number of Securities<br>Underlying<br>Unexercised Options<br>at Fiscal Year-End |                               | Value of Unexercised<br>in-the-Money<br>Options at<br>Fiscal Year-End |
|------|-----------------------------------|-------------------|---|-------------------------------|---|
|      |                                   |                   | Exercisable/<br>Unexercisable   | Exercisable/<br>Unexercisable |   |
|      |                                   | None              |   |                               |   |

**LONG-TERM INCENTIVE PLANS AWARDS IN LAST FISCAL YEAR**

| Name | Number of<br>shares, units<br>or other rights (#) | Performance or<br>other period until<br>maturation or payout | Estimated future payouts under<br>non-stock price-based plans |                     |                      |
|------|---|--|---|---------------------|----------------------|
|      |   |  | Threshold<br>(\$ or #)  | Target<br>(\$ or #) | Maximum<br>(\$ or #) |
|      |   |  | None  |                     |                      |

**Director Compensation**

We have not paid our directors fees in the past for attending scheduled and special meetings of our board of directors. In the future, we may adopt a policy of paying independent director a fee for their attendance at board and committee meetings. We reimburse each director for reasonable travel expenses related to such director's attendance at board of directors and committee meetings. The Board did not have any board meeting after the share exchange and the directors did not receive any reimbursement.

**Board Composition and Committees**

Our board of directors currently consists of three members. We currently do not have standing audit, nominating or compensation committees. Currently, our entire board of directors is responsible for the functions that would otherwise be handled by these committees. We intend, however, to establish an audit committee and a compensation committee of the board of directors as soon as practicable. We envision that the audit committee will be primarily responsible for reviewing the services performed by our independent auditors, evaluating our accounting policies and our system of internal controls. The compensation committee will be primarily responsible for reviewing and approving our salary and benefits policies (including stock options) and other compensation of our executive officers.

Our board of directors has not made a determination as to whether any member of our board is an audit committee financial expert. Upon the establishment of an audit committee, the board will determine whether any of the directors qualify as an audit committee financial expert.

**Limitation of Liability of Directors and Indemnification of Directors and Officers**

The Certificate of Incorporation provides that the Corporation may indemnify any Officer or Director, or any former Officer or Director, the full extent permitted by law.

Section 607.0850 of the Florida Business Corporation Act provides:

(1) A corporation shall have power to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the corporation or, with respect to any

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(2) A corporation shall have power to indemnify any person, who was or is a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated

## **Table of Contents**

expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made under this subsection in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(3) To the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any proceeding referred to in subsection (1) or subsection (2), or in defense of any claim, issue, or matter therein, he or she shall be indemnified against expenses actually and reasonably incurred by him or her in connection therewith.

(4) Any indemnification under subsection (1) or subsection (2), unless pursuant to a determination by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in subsection (1) or subsection (2). Such determination shall be made:

(a) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding;

(b) If such a quorum is not obtainable or, even if obtainable, by majority vote of a committee duly designated by the board of directors (in which directors who are parties may participate) consisting solely of two or more directors not at the time parties to the proceeding;

(c) By independent legal counsel:

1. Selected by the board of directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or

2. If a quorum of the directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full board of directors (in which directors who are parties may participate); or

(d) By the shareholders by a majority vote of a quorum consisting of shareholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of shareholders who were not parties to such proceeding.

(5) Evaluation of the reasonableness of expenses and authorization of indemnification shall be made in the same manner as the determination that indemnification is permissible. However, if the determination of permissibility is made by independent legal counsel, persons specified by paragraph (4)(c) shall evaluate the reasonableness of expenses and may authorize indemnification.

(6) Expenses incurred by an officer or director in defending a civil or criminal proceeding may be paid by the corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if he or she is ultimately found not to be entitled to indemnification by the corporation pursuant to this section. Expenses incurred by other employees and agents may be paid in advance upon such terms or conditions that the board of directors deems appropriate.

(7) The indemnification and advancement of expenses provided pursuant to this section are not exclusive, and a corporation may make any other or further indemnification or advancement of expenses of any of its directors, officers, employees, or agents, under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office. However, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his or her actions, or omissions to act, were material to the cause of action so adjudicated and constitute:

(a) A violation of the criminal law, unless the director, officer, employee, or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful;

(b) A transaction from which the director, officer, employee, or agent derived an improper personal benefit;

(c) In the case of a director, a circumstance under which the liability provisions of s. 607.0834 are applicable; or



**Table of Contents**

(d) Willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareholder.

(8) Indemnification and advancement of expenses as provided in this section shall continue as, unless otherwise provided when authorized or ratified, to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person, unless otherwise provided when authorized or ratified.

(9) Unless the corporation's articles of incorporation provide otherwise, notwithstanding the failure of a corporation to provide indemnification, and despite any contrary determination of the board or of the shareholders in the specific case, a director, officer, employee, or agent of the corporation who is or was a party to a proceeding may apply for indemnification or advancement of expenses, or both, to the court conducting the proceeding, to the circuit court, or to another court of competent jurisdiction. On receipt of an application, the court, after giving any notice that it considers necessary, may order indemnification and advancement of expenses, including expenses incurred in seeking court-ordered indemnification or advancement of expenses, if it determines that:

(a) The director, officer, employee, or agent is entitled to mandatory indemnification under subsection (3), in which case the court shall also order the corporation to pay the director reasonable expenses incurred in obtaining court-ordered indemnification or advancement of expenses;

(b) The director, officer, employee, or agent is entitled to indemnification or advancement of expenses, or both, by virtue of the exercise by the corporation of its power pursuant to subsection (7); or

(c) The director, officer, employee, or agent is fairly and reasonably entitled to indemnification or advancement of expenses, or both, in view of all the relevant circumstances, regardless of whether such person met the standard of conduct set forth in subsection (1), subsection (2), or subsection (7).

(10) For purposes of this section, the term "corporation" includes, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger, so that any person who is or was a director, officer, employee, or agent of a constituent corporation, or is or was serving at the request of a constituent corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, is in the same position under this section with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

(11) For purposes of this section:

(a) The term "other enterprises" includes employee benefit plans;

(b) The term "expenses" includes counsel fees, including those for appeal;

(c) The term "liability" includes obligations to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to any employee benefit plan), and expenses actually and reasonably incurred with respect to a proceeding;

(d) The term "proceeding" includes any threatened, pending, or completed action, suit, or other type of proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal;

(e) The term "agent" includes a volunteer;

(f) The term "serving at the request of the corporation" includes any service as a director, officer, employee, or agent of the corporation that imposes duties on such persons, including duties relating to an employee benefit plan and its participants or beneficiaries; and

(g) The term "not opposed to the best interest of the corporation" describes the actions of a person who acts in good faith and in a manner he or she reasonably believes to be in the best interests of the participants and beneficiaries of an employee benefit plan.

(12) A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against the person and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under the provisions of this section.



**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information regarding the beneficial ownership of our Common Stock, 26,651,677 shares of Common Stock, giving effect to the closing of (i) the share exchange, (ii) the automatic conversion of the Series A Convertible Preferred Stock into shares of our Common Stock (on the basis of 32.5 shares of Common Stock for each shares of Series A Convertible Preferred Stock or 22,800,000 shares of Common Stock) immediately upon the effective date of the amendments to our Articles of Incorporation, which will occur prior to the effective date of the registration statement of which this Prospectus is a part, and (iii) the sale of 2,561,677 shares of Common Stock to the Investors. The information indicates:

each person who is known by us to be the beneficial owner of more than five percent (5%) of our issued and outstanding shares of Common Stock;

each of our directors, executive officers and nominees to become directors; and

all directors and executive officers as a group.

| <b>Name and Address*</b>                                | <b>Number of Shares</b> | <b>Percentage Owned</b> |
|---|-------------------------|-------------------------|
| Li Brothers Holding Inc.(1)                             | 12,768,000(2)           | 48.3%                   |
| Vyle Investment Inc.(3)                                 | 2,621,660(4)            | 9.9%                    |
| China Honor Investment Limited(5)                       | 2,667,940(6)            | 10.1%                   |
| Worldtime Investment Advisors Limited                   | 2,576,060               | 9.7%                    |
| Gangjin Li  | 13,068,000(7)           | 49.4%                   |
| Brian Lin   | 936,498(8)              | 3.6%                    |
| Qihong Wu   | 0                       |                         |
| Tieying Guo   | 0                       |                         |
| Vision Master Opportunity Fund(9)                       | 2,701,281               | 9.9%                    |
| Directors and executive officers as a group (4 persons) | 14,004,498(9)           | 52.9%                   |

\* The address for the officers and directors is South Banbidian Industrial Park, Liqiao Township, Shunyi District, Beijing 101304, People's Republic of China, (86-10) 8416 3816.

- (1) Li Brothers Holding Inc is a BVI company of which Mr. Gangjin Li is the sole shareholder.
- (2) Represents the number of shares of Common Stock to be issued on conversion of Series A Convertible Preferred Stock as soon as the amendment of the certificate of incorporation to increase the number of authorized shares becomes effective.
- (3) Wyle Investment Inc. is a BVI company of which Mr. Brian Lin owns 30%
- (4) Represents the number of shares of Common Stock to be issued on conversion of Series A Convertible Preferred Stock as soon as the amendment of the certificate of incorporation to increase the number of authorized shares becomes effective.
- (5) China Honor Investment Inc. is a BVI company of which Mr. Ang Li is the sole shareholder. Mr. Ang Li is the son of Mr. Gangjin Li, who disclaims beneficial ownership of such shares.
- (6) Represents the number of shares of Common Stock to be issued on conversion of Series A Convertible Preferred Stock as soon as the amendment of the certificate of incorporation to increase the number of authorized shares becomes effective.
- (7) Represents the number of shares of Common Stock to be issued on conversion of Series A Convertible Preferred Stock as soon as the amendment of the certificate of incorporation to increase the number of authorized shares becomes effective plus options to purchase 300,000 shares of Common Stock.
- (8) Represents the number of shares of Common Stock to be issued on conversion of Series A Convertible Preferred Stock, including 30% of the shares held by Vyle, Investment Inc., as soon as the amendment of the certificate of incorporation to increase the number of authorized shares becomes effective plus options to purchase 150,000 shares of Common Stock.
- (9) Represents the number of shares of Common Stock purchased on October 27, 2006 and December 5, 2006 from the Company, and shares of Common Stock issuable upon exercise of the warrants.



**Table of Contents**

**SELLING STOCKHOLDERS**

This prospectus relates to the offering and sale, from time to time, of up to 4,695,365 shares of our common stock held by the stockholders named in the table below, which amount includes common shares issuable upon the exercise of warrants held by the selling stockholders. The selling stockholders may exercise their warrants at any time in their sole discretion. All of the selling stockholders named below acquired their shares of our common stock and warrants directly from us in private transactions.

Set forth below is information, to the extent known to us, setting forth the name of each Selling Shareholder and the amount and percentage of Common Stock owned by each (including shares that can be acquired on the exercise of outstanding warrants) prior to the offering, the shares to be sold in the offering, and the amount and percentage of Common Stock to be owned by each (including shares that can be acquired on the exercise of outstanding warrants) after the offering assuming all shares are sold. The percentages are calculated assuming the conversion of the Series A Convertible Preferred Stock, which will occur prior to the effective date of the registration statement of which this prospectus is a part. The footnotes provide information about persons who have investment voting power for the Selling Shareholders and about material transactions between the Selling Shareholders and the Company.

The selling stockholders may sell all or some of the shares of common stock they are offering, and may sell shares of our common stock otherwise than pursuant to this prospectus. The table below assumes that each selling stockholder exercises all of its warrants and sells all of the shares issued upon exercise thereof, and that each selling stockholder sells all of the shares offered by it in offerings pursuant to this prospectus, and does not acquire any additional shares. We are unable to determine the exact number of shares that will actually be sold or when or if these sales will occur.

Under the terms of the warrants, a selling stockholder may not exercise the warrants to the extent such exercise would cause such selling stockholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 4.99% of our then outstanding shares of common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. The number of shares in the first and third columns and the percentage in the second column do not reflect this limitation. The selling stockholders may sell all, some or none of their shares in this offering. See Plan of Distribution.

**Table of Contents**

|  | Shares                   |         |                   | Shares                |         |  |
|--|--------------------------|---------|-------------------|-----------------------|---------|--|
|  | Beneficially Owned       |         |                   | Beneficially Owned    |         |  |
|  | Prior to the Offering(1) |         |                   | After the Offering(1) |         |  |
|  | Number                   | Percent | Shares to be Sold | Number                | Percent |  |
| <b>Selling Shareholders</b>                          |                          |         |                   |                       |         |  |
| Peter Rapaport (1)(2)                                | 86,155                   | *       | 86,155            | 0                     | *       |  |
| Vision Opportunity Master Fund, Ltd.(1)(2)(3)(7)(25) | 2,701,281                | 9.9%    | 1,938,464         | 762,817               | 7.3%    |  |
| QVT Financial(1)(2)(3)(8)                            | 646,165                  | 2.4     | 646,165           | 0                     | *       |  |
| Great Gain International Trading Limited(1)(2)(9)    | 387,874                  | 1.5     | 387,874           | 0                     | *       |  |
| WhiteBox Intermarket Partners, L.P.(1)(2)(10)        | 215,387                  | *       | 215,387           | 0                     | *       |  |
| Goldie Greif(1)(2)                                   | 86,155                   | *       | 86,155            | 0                     | *       |  |
| Nite Capital LP(1)(2)(11)                            | 64,616                   | *       | 64,616            | 0                     | *       |  |
| Anthony J. Sarkis(1)(2)(4)                           | 61,539                   | *       | 61,539            | 0                     | *       |  |
| Ari Fuchs(1)(4)                                      | 1,000                    | *       | 1,000             | 0                     | *       |  |
| H. C. Wainwright & Co.(1)(4)(12)                     | 81,702                   | *       | 81,702            | 0                     | *       |  |
| Jason Stein(1)(4)                                    | 19,316                   | *       | 19,316            | 0                     | *       |  |
| Christine Harrison(1)(4)                             | 3,700                    | *       | 3,700             | 0                     | *       |  |
| John Clarke(1)(4)                                    | 2,500                    | *       | 2,500             | 0                     | *       |  |
| Xiao Nan Li(1)(4)                                    | 25,798                   | *       | 25,798            | 0                     | *       |  |
| Jaybelle, Inc.(5)(13)                                | 410,000                  | 1.5     | 410,000           | 0                     | *       |  |
| SJ Investments Company(5)(14)                        | 160,000                  | *       | 160,000           | 0                     | *       |  |
| Castle Bison, Inc.(5)(15)                            | 156,000                  | *       | 156,000           | 0                     | *       |  |
| Mr. Jack Kleinert(5)                                 | 40,000                   | *       | 40,000            | 0                     | *       |  |
| Fink Family Trust(5)(16)                             | 40,000                   | *       | 40,000            | 0                     | *       |  |
| Raul Silvestre, Sr.(5)                               | 34,000                   | *       | 34,000            | 0                     | *       |  |
| Scott Finnegan(5)                                    | 6,000                    | *       | 6,000             | 0                     | *       |  |
| Richardson & Patell / RP Capital(17)                 | 32,388                   | *       | 32,388            | 0                     | *       |  |
| Helen Kohn(5)  | 20,000                   | *       | 20,000            | 0                     | *       |  |
| Ronit Sucoff(5)                                      | 20,000                   | *       | 20,000            | 0                     | *       |  |
| Mark Chasen Profit Sharing Plan(5)(18)               | 8,000                    | *       | 8,000             | 0                     | *       |  |
| Vincent Finnegan(5)                                  | 4,000                    | *       | 4,000             | 0                     | *       |  |
| John Vogel(5)  | 4,000                    | *       | 4,000             | 0                     | *       |  |
| Menlo Venture Partners(5)(19)                        | 20,000                   | *       | 20,000            | 0                     | *       |  |
| Oceanus Value Fund, L.P.(6)(20)                      | 25,000                   | *       | 25,000            | 0                     | *       |  |
| Robert Scherne(5)                                    | 17,000                   | *       | 17,000            | 0                     | *       |  |
| Irv Edwards, Employee Retirement Trust(5)(21)        | 8,000                    | *       | 8,000             | 0                     | *       |  |
| Law Offices of Raul Silvestre, APLC(5)(22)           | 8,665                    | *       | 8,665             | 0                     | *       |  |
| Sichenzia Ross Friedman Ference LLP(5)(23)           | 4,000                    | *       | 4,000             | 0                     | *       |  |
| John Lasala & Company(5)(24)                         | 10,000                   | *       | 10,000            | 0                     | *       |  |
| Allen Weinstein(5)                                   | 10,000                   | *       | 10,000            | 0                     | *       |  |
| Lawrence Chimierine                                  | 27,329                   | *       | 27,329            | 0                     | *       |  |

\* denotes less than 1%

- (1) Includes shares that may be acquired on the exercise of presently exercisable warrants.
- (2) On October 27, 2006, pursuant to a Securities Purchase Agreement dated October 27, 2006 ( SPA ), the Company issued 1,538,599 units at \$3.25 per share consisting of 1,538,599, Class A warrants expiring on October 27, 2011 to acquire 307,723 shares at \$3.58 per share and Class B warrants expiring on October 27, 2011 to acquire 307,723 shares at \$4.88 per share. The terms of the warrants prohibit exercise of the warrants to the extent that exercise of the warrants would result in the holder, together with its affiliates, beneficially owning in excess of 4.999% of our outstanding shares of common stock.
- (3) On December 5, 2006, under the SPA, the Company issued 923,078 units at \$3.25 per share consisting of 923,078, Class A warrants expiring on December 5, 2011 to acquire 184,615 shares at \$3.58 per share and Class B warrants expiring on December 5, 2011 to acquire 184,615 shares at \$4.88 per share. The terms of the warrants prohibit exercise of the warrants to the extent that exercise of the warrants would result in the holder, together with its affiliates, beneficially owning in excess of 4.999% of our outstanding shares of common stock.
- (4) In connection with the SPA, the Company issued warrants to acquire a total of a total of 184,626 shares at \$3.25 per share. Warrants to acquire 115,395 shares were expire on October 27, 2011 and warrants to acquire 69,231 shares expire of December 4, 2011. The warrants

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

issued to H.C. Wainwright and the employees and officers of H.C. Wainwright have been deemed compensation by the NASD and are therefore subject to a 180-day lock-up from the date of this prospectus pursuant to Rule 2710(g)(1) of the NASD Conduct Rules. Additionally, the warrants may not be sold, transferred, assigned, pledged or hypothecated for a period of 180 days following the date of this prospectus. However, the warrants may be transferred to any underwriter and selected dealer participating in the offering and their bona fide officers or partners. Thereafter, the warrants will be transferable provided such transfer is in accordance with the provisions of the Securities Act.

- (5) Acquired shares in connection with the acquisition of the controlling interests of the Company in September, 2005
- (6) Acquired shares in connection with the conversion of a note issued by the Company
- (7) Adam Benowitz has dispositive powers with respect to the securities to be offered for resale
- (8) Daniel Gold, Lars Beder, Tracy Fu, and Nicholas Brumm has dispositive powers with respect to the securities to be offered for resale
- (9) Zhonglin Dai has dispositive powers with respect to the securities to be offered for resale
- (10) Andrew Redleaf has dispositive powers with respect to the securities to be offered for resale
- (11) Keith Goodman has dispositive powers with respect to the securities to be offered for resale
- (12) Michael Messinger has dispositive powers with respect to the securities to be offered for resale. The firm is a registered broker-dealer.
- (13) Martin Sumichrast has sole dispositive powers with respect to the securities to be offered for resale
- (14) John Scardino has sole dispositive powers with respect to the securities to be offered for resale
- (15) Raul Silvestre, Jr. has sole dispositive powers with respect to the securities to be offered for resale
- (16) Marvin Fink has sole dispositive powers with respect to the securities to be offered for resale
- (17) Eric Richardson has sole dispositive powers with respect to the securities to be offered for resale
- (18) Mark Chasen has sole dispositive powers with respect to the securities to be offered for resale
- (19) Ariel Coro has sole dispositive powers with respect to the securities to be offered for resale
- (20) John C. Tausche has sole dispositive powers with respect to the securities to be offered for resale
- (21) Irv Edwards has sole dispositive powers with respect to the securities to be offered for resale
- (22) Raul Silvestre, Jr. has sole dispositive powers with respect to the securities to be offered for resale
- (23) Richard Freidman has sole dispositive powers with respect to the securities to be offered for resale
- (24) John LaSala has sole dispositive powers with respect to the securities to be offered for resale
- (25) Although the Series A warrants and Series B warrants include a 4.999% blocker provision, Vision Opportunity Master Fund, Ltd. provided a written waiver of such provision. Such warrants now have a 9.999% blocker provision in effect.

## **Table of Contents**

Except as otherwise indicated above or in the footnotes to the table, the selling stockholders have not held any position or office or had any material relationship with our company or any of its subsidiaries within the past three years the selling stockholders possess sole voting and investment power with respect to the shares shown, and no selling stockholder is a broker-dealer, or an affiliate of a broker-dealer.

### **PLAN OF DISTRIBUTION**

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales effected after the date the registration statement of which this Prospectus is a part is declared effective by the SEC;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share; and

a combination of any such methods of sale.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

## **Table of Contents**

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act.

H.C. Wainwright acted as our placement agent in our private placement of our common stock and warrants in October and December 2006. In addition to cash compensation and fees and expenses paid to our placement agent, we issued H.C. Wainwright and certain of its officers warrants for the purchase of up to 184,626 shares of our common stock, with an exercise price of \$3.25 per share.

We have also granted H.C. Wainwright a right of first refusal until January 2008 to act as lead underwriter or placement agent for any and all future public and private equity and debt offerings.

Pursuant to a requirement by the National Association of Securities Dealers, Inc., or NASD, the maximum commission or discount to be received by any NASD member or independent broker/dealer may not be greater than 8.0% of the gross proceeds received by us for the sale of any securities being registered pursuant to SEC Rule 415.



**Table of Contents**

**Certain Relationships and Related Transactions**

On October 27, 2006, we consummated the transactions contemplated by a share exchange agreement among Unipro and the owners of the issued and outstanding capital stock of CFPG, including Gangjin Li, our current Chairman of the Board and controlling stockholder, and certain of our other officers and directors. Pursuant to the share exchange agreement, we acquired all of the outstanding capital stock of CFPG in exchange for shares of our Series A Convertible Preferred Stock which will be convertible into 22,800,000 shares of our Common Stock. As a result of this transaction, Mr. Li will become the owner of 49.5% percent of our outstanding common shares on a fully diluted basis.

On June 19, 2006, the CFPG entered a sales and purchase agreement with the existing five shareholders ( Original Shareholders ) of Sureland Industrial Fire Safety Limited. ( Sureland Industrial ) which agreed to transfer their 100% ownership in Sureland Industrial. The total purchase consideration was \$10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. On July 18, 2006, this transfer was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People s Republic of China, ( PRC ) was completed on July 18, 2006. As a result of this transfer, CFPG became the 100% shareholder of Sureland Industrial as July 19, 2006 . Mr. Gangjin Li, our current Chairman of the Board and controlling stockholder, was a controlling shareholder of Sureland Industrial.

On June 22, 2006, the CFPG signed a sales and purchase agreement with the existing two shareholders, Sureland Industrial and Vyle Investment Inc., to become 100% shareholder of Sureland Equipment. The purchase price was based on the registered capital (US\$660,000) of Sureland Equipment. On August 4, 2006, this transaction was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People s Republic of China, ( PRC ) was completed on August 15, 2006. Mr. Gangjin Li, our current Chairman of the Board and controlling stockholder, was a controlling shareholder of Sureland Equipment.

---

**Table of Contents**

**DESCRIPTION OF SECURITIES**

There are currently 18,000,000 authorized shares, of which 13,000,000 are common stock, \$.001 per value, and 5,000,000 shares of preferred stock of which 3,000,000 shares are Series I Convertible Preferred Stock and 2,000,000 shares are Series A Convertible Preferred Stock.

**Common Stock**

There are 3,661,677 shares of Common Stock issued and outstanding. The directors and shareholders have adopted an amendment to the Articles of Incorporation which increases the number authorized shares to 70,000,000 and the number of authorized shares of common stock to 65,000,000. The amendments will become effective 20 days after distribution of an Information Statement to shareholders, which will be distributed before the effective date of the registration statement of which this Prospectus is a part. After the effectiveness of the amendments to the articles of incorporation, the Series A Convertible Preferred stock will automatically be converted to 22,800,000 shares of common stock. After conversion, there will be 26,461,677 shares of common stock outstanding. There are Series A warrants to acquire 492,340 shares of Common Stock at \$3.58 per share that expire in 2011; Series B warrants to acquire 492,340 shares of Common Stock at \$4.88 per share that expire in 2011; warrants to purchase 184,626 shares of Common Stock at \$3.25 per share at issued to H.C. Wainwright and its employees; and options to purchase 750,000 shares of Common Stock issued to employees at \$1.25 per share.

The Series A and Series B warrants are subject to the following call provision: In the event (i) the Common Stock is traded on the Nasdaq Stock Market, The American Stock Exchange, the New York Stock Exchange or the OTC Bulletin Board, (ii) the closing bid price per share of Common Stock equals or exceeds one hundred fifty percent (150%) of the then-current Warrant Price for any twenty (20) consecutive trading days commencing after the Registration Statement (as defined in the Registration Rights Agreement) has been declared effective (the Trading Period ) and (iii) the average daily trading volume during the Trading Period equals or exceeds seventy-five thousand (75,000) shares, the Company, upon ten (10) trading days prior written notice (the Notice Period ) given to the Warrantholder within one (1) business day immediately following the end of the Trading Period, may call this Warrant, in whole but not in part, at a redemption price equal to \$0.05 per share of Common Stock then purchasable pursuant to this Warrant; provided that (x) the Company simultaneously calls all Company Warrants (as defined below) on the same terms, (y) all of the shares of Common Stock issuable hereunder either (A) are registered pursuant to an effective Registration Statement which is not suspended and for which no stop order is in effect, and pursuant to which the Warrantholder is able to sell such shares of Common Stock at all times during the Notice Period or (B) no longer constitute Registrable Securities (as defined in the Registration Rights Agreement) and (z) the Warrant is fully exercisable for the full amount of Warrant Shares covered hereby.

The Company has agreed to certain financial obligations in the event the registration statement that is subject to the Registration Rights Agreement is not made effective in a timely fashion.

The Company has agreed with the Investors that in the event the registration statement is not effective within 150 days after December 5, 2006, the Company will make pro rata payments to each Investor, in an amount equal to 2.0% of the aggregate amount invested by such Investor (based upon the number of Registrable Securities then owned by such Investor) and an amount equal to 1.0% of the aggregate amount invested by such Investor (based upon the number of Registrable Securities then owned by such Investor) for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective (the Blackout Period ), up to a maximum of 24%. The amount invested by the Investors is \$12,165,633.

The Company has agreed with shareholders who were shareholders of the Company before the Share Exchange to purchase up to shares at \$3.25 per share if the Registration Statement is not effective before October 27, 2007. The maximum amount of the repurchase obligation is \$3,459,242.

The holders of Common Stock are entitled to one vote for each share held of record in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting with respect to the election of directors. As a result, the holders of more than 50% of the shares voting for the election of directors can elect all of the directors. Holders of Common Stock are entitled:

to receive any dividends as may be declared by the Board of Directors out of funds legally available for such purpose after payment of accrued dividends on the outstanding shares of preferred stock; and



## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

in the event of the Company's liquidation, dissolution, or winding up, to share ratably in all assets remaining after payment of liabilities and after provisions have been made for each class of stock having preference over the Common Stock. All of the outstanding shares of Common Stock are validly issued, fully paid and nonassessable. Holders of Common Stock have no preemptive right to subscribe for or purchase additional shares of any class of the Company's capital stock.

## **Table of Contents**

### **Preferred Stock**

We are authorized to issue 5,000,000 shares of preferred stock, of which 3,000,000 shares are designated as Series 1 and 2,000,000 shares are Series A Convertible Preferred Stock. The Series 1 preferred shares are convertible into 3 shares our Common Stock. No Series 1 preferred shares have been issued none of our preferred shares have been issued. The terms of the Series A Convertible Preferred Stock are as follows. 701,538.46 shares of the Series A Convertible Preferred Stock are outstanding.

**Dividends.** The Series A Convertible Preferred Stock shall be treated pari passu with Common Stock except that the dividend on each share of Series A Convertible Preferred Stock shall be equal to the amount of the dividend declared and paid on each share of Common Stock multiplied by the Conversion Rate.

**Liquidation, Dissolution, or Winding Up.** Series A Convertible Preferred Stock shall be treated pari passu with Common Stock except that the payment on each share of Series A Convertible Preferred Stock shall be equal to the amount of the payment on each share of Common Stock multiplied by the Conversion Rate.

**Voting.** The shares of Series A Convertible Preferred Stock shall vote on all matters as a class with the holders of Common Stock and each share of Series A Convertible Preferred Stock shall be entitled to the number of votes per share equal to the Conversion Rate.

**Conversion Rate.** The Conversion Rate shall be 32.5 shares of Common Stock (subject to customary adjustments) for each share of Series A Convertible Preferred Stock. The outstanding shares are convertible into 22,800,000 shares of common stock.

**Mandatory Conversion.** Upon the effective date of an amendment to the Articles of Incorporation amending Article 4 increasing the total number of authorized shares to 70,000,000 and increasing the number of authorized shares of Common Stock to 65,000,000 (the Mandatory Conversion Date ), (i) all outstanding shares of Series A Convertible Preferred Stock shall be automatically converted into shares of Common Stock, at the Conversion Rate, (ii) such shares may not be reissued by the Corporation as shares of such series and (iii) all outstanding options and warrants to acquire Series A Convertible Preferred Stock shall be automatically converted into options and warrants to acquire shares of Common Stock, at the then effective Conversion Rate and the price per Share of Common Stock will be equal to product of \$105.625 and the fraction in which the numerator is 1 and the denominator is the Conversion Rate.

### **Dividends**

We do not anticipate the payment of cash dividends on our common stock in the foreseeable future.

### **Transfer Agent**

The transfer agent for our common stock is Transfer Online, Inc., 317 SW Alder Street, 2nd Floor Portland, OR 97204.

**Table of Contents**

**LEGAL MATTERS**

Certain legal matters with respect to the shares of common stock offered hereby will be passed upon for us by Preston Gates Ellis, LLP, Seattle, Washington.

**EXPERTS**

Moore Stephens Wurth Frazer and Torbet, LLP, have audited, as set forth in their report appearing elsewhere in this prospectus, the consolidated financial statements of China Fire Protection Group Inc. and Subsidiaries as of December 31, 2005 and 2004 and for the years ended December 31, 2005 and 2004. We have included the consolidated financial statements of China Fire Protection Group in the prospectus in reliance on Moore Stephens report, given on their authority as experts in accounting and auditing.

On December 15, 2006, we dismissed Berkovits, Lago & Company, LLP as our principal independent accountant. Berkovits, Lago & Company, LLP's report on our financial statements for the past three years did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope or accounting principles. The report for the year ended October 31, 2005 contained a going-concern modification. There were no disagreements with Berkovits, Lago & Company, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Berkovits, Lago & Company, LLP, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report. Berkovits, Lago & Company has furnished to us a letter addressed to the SEC, which we have filed with the SEC, stating that it agrees with the foregoing statements.

On December 15, 2006, we retained Moore Stephens Wurth Frazer and Torbet, LLP to serve as our principal independent accountant. Our board of directors approved the decision to dismiss Berkovits, Lago & Company, LLP as our principal independent accountant and to retain Moore Stephens Wurth Frazer and Torbet, LLP to serve as our principal independent accountant.

**AVAILABLE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports, proxy statements and other information with the SEC. Our reports, proxy statements and other information filed pursuant to the Securities Exchange Act of 1934 may be inspected and copied at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can also be obtained from the Public Reference Room of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the SEC's Web site is <http://www.sec.gov>.

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act of 1933 with respect to the common stock offered hereby. As permitted by the rules and regulations of the SEC, this prospectus, which is part of the registration statement, omits certain information, exhibits, schedules and undertakings set forth in the registration statement. Copies of the registration statement and the exhibits are on file with the SEC and may be obtained from the SEC's Web site or upon payment of the fee prescribed by the SEC, or may be examined, without charge, at the offices of the SEC set forth above. For further information, reference is made to the registration statement and its exhibits.

---

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL INFORMATION**

|   |      |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | F-2  |
| <u>Consolidated Balance Sheets of China Fire Protection Group Inc. and Subsidiaries as of December 31, 2005 and 2004</u>  | F-3  |
| <u>Consolidated Statements of Income and Other Comprehensive Income of China Fire Protection Group Inc. and Subsidiaries for the Years Ended December 31, 2005 and 2004</u>                         | F-4  |
| <u>Consolidated Statements of Shareholders' Equity of China Fire Protection Group Inc. and Subsidiaries for the Years Ended December 31, 2005 and 2004</u>  | F-5  |
| <u>Consolidated Statements of Cash Flows of China Fire Protection Group Inc. and Subsidiaries for the Years Ended December 31, 2005 and 2004</u>  | F-6  |
| <u>Notes to Consolidated Financial Statements of China Fire Protection Group Inc. and Subsidiaries for the Years Ended December 31, 2005 and 2004</u>   | F-7  |
| <u>Consolidated Balance Sheets of China Fire Protection Group Inc. and Subsidiaries as of September 30, 2006 and December 31, 2005</u>  | F-30 |
| <u>Consolidated Statements of Income and Other Comprehensive Income of China Fire Protection Group Inc. and Subsidiaries for the Three Months and Nine Months Ended September 30, 2006 and 2005</u> | F-31 |
| <u>Consolidated Statements of Shareholders' Equity of China Fire Protection Group Inc. and Subsidiaries for the Nine Months Ended September 30, 2006 and 2005</u>                                   | F-32 |
| <u>Consolidated Statements of Cash Flows of China Fire Protection Group Inc. and Subsidiaries for the Nine Months Ended September 30, 2006 and 2005</u>   | F-33 |
| <u>Notes to Consolidated Financial Statements of China Fire Protection Group Inc. and Subsidiaries for the Nine Months Ended September 30, 2006</u>   | F-34 |

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

China Fire Protection Group Inc.

We have audited the accompanying consolidated balance sheets of China Fire Protection Group Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income and other comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Fire Protection Group Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Moore Stephens Wurth Frazer and Torbet, LLP

Walnut, California

July 24, 2006, except for note 15,

as to which the date is November 2, 2006

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2005 AND 2004**

|  | 2005                 | 2004                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash   | \$ 2,357,399         | \$ 5,626,498         |
| Restricted cash  | 1,535,088            | 737,430              |
| Accounts receivable, net of allowance for doubtful accounts of \$529,300 and \$293,637 as of December 31, 2005 and December 31, 2004, respectively | 7,687,260            | 5,657,675            |
| Notes receivable   | 1,246,200            |                      |
| Other receivables  | 726,484              | 410,469              |
| Inventories  | 2,410,020            | 1,179,684            |
| Costs and estimated earnings in excess of billings   | 2,626,052            | 3,371,318            |
| Employee advances  | 1,325,035            | 524,724              |
| Prepayments and deferred expenses  | 1,704,219            | 332,632              |
| <b>Total current assets</b>  | <b>21,617,757</b>    | <b>17,840,430</b>    |
| <b>PLANT AND EQUIPMENT, net</b>  | <b>3,615,374</b>     | <b>3,560,188</b>     |
| <b>OTHER ASSETS:</b>   |                      |                      |
| Deferred expenses non current  | 59,238               |                      |
| Intangible assets land use right, net of accumulated amortization  | 539,468              | 552,034              |
| <b>Total other assets</b>  | <b>598,706</b>       | <b>552,034</b>       |
| <b>Total assets</b>  | <b>\$ 25,831,837</b> | <b>\$ 21,952,652</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Accounts payable   | \$ 3,950,144         | \$ 2,306,261         |
| Customer deposits  | 1,707,220            | 883,105              |
| Other payables   | 260,874              | 401,641              |
| Investment payable   | 10,087,527           | 10,087,527           |
| Accrued liabilities  | 365,131              | 330,891              |
| Dividend payable   | 8,779,200            | 1,506,450            |
| Taxes payable  | 604,011              | 733,428              |
| <b>Total current liabilities</b>   | <b>25,754,107</b>    | <b>16,249,303</b>    |
| <b>MINORITY INTEREST</b>   | <b>77,730</b>        | <b>67,073</b>        |
| <b>SHAREHOLDERS EQUITY:</b>  |                      |                      |
| Common stock, \$1 par value, 50,000 shares authorized, 2,000 and 2,000 shares issued and outstanding at December 31, 2005 and 2004, respectively   | 2,000                | 2,000                |
| Additional paid-in-capital   | 6,078,058            | 6,078,058            |
| Statutory reserves   | 3,458,325            | 2,546,088            |
| Retained earnings  | 65,554               | 7,097,657            |
| Owner contribution receivable  | (10,087,527)         | (10,087,527)         |

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

|  |               |               |
|--|---------------|---------------|
| Accumulated other comprehensive income     | 483,590       |               |
| Total shareholders' equity                 |               | 5,636,276     |
| Total liabilities and shareholders' equity | \$ 25,831,837 | \$ 21,952,652 |

See report of independent registered public accounting firm.

The accompanying notes are an integral part of this statement.

F-3

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|  | <b>2005</b>   | <b>2004</b>   |
|--|---------------|---------------|
| REVENUES   | \$ 21,574,214 | \$ 16,457,194 |
| COST OF REVENUES   | 9,037,972     | 7,181,115     |
| GROSS PROFIT   | 12,536,242    | 9,276,079     |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                   | 5,495,578     | 4,069,467     |
| INCOME FROM OPERATIONS   | 7,040,664     | 5,206,612     |
| OTHER INCOME, NET OF OTHER EXPENSES                            | 577,673       | 344,303       |
| INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST | 7,618,337     | 5,550,915     |
| PROVISION FOR INCOME TAXES                                     | 202,920       | 128,654       |
| NET INCOME BEFORE MINORITY INTEREST                            | 7,415,417     | 5,422,261     |
| MINORITY INTEREST  | 143,283       | 202,793       |
| NET INCOME   | 7,272,134     | 5,219,468     |
| OTHER COMPREHENSIVE INCOME:                                    |               |               |
| Foreign currency translation adjustment                        | 483,590       |               |
| COMPREHENSIVE INCOME   | \$ 7,755,724  | \$ 5,219,468  |

See report of independent registered public accounting firm.

The accompanying notes are an integral part of this statement.



**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|                                   | Common<br>stock | Additional<br>paid-in-capital | Statutory<br>reserves | Retained<br>earnings | Owner<br>contribution<br>receivable | Accumulated other<br>comprehensive<br>income | Totals       |
|-----------------------------------|-----------------|-------------------------------|-----------------------|----------------------|-------------------------------------|--|--------------|
| BALANCE, December 31, 2003        | \$ 2,000        | \$ 6,078,058                  | \$ 1,596,270          | \$ 2,828,007         | \$ (10,087,527)                     | \$   | \$ 416,808   |
| Net income                        |                 |                               |                       | 5,219,468            |                                     |  | 5,219,468    |
| Adjustment to statutory reserves  |                 |                               | 949,818               | (949,818)            |                                     |  |              |
| BALANCE, December 31, 2004        | \$ 2,000        | \$ 6,078,058                  | \$ 2,546,088          | \$ 7,097,657         | \$ (10,087,527)                     | \$   | \$ 5,636,276 |
| Net income                        |                 |                               |                       | 7,272,134            |                                     |  | 7,272,134    |
| Adjustment to statutory reserves  |                 |                               | 912,237               | (912,237)            |                                     |  |              |
| Dividend declared                 |                 |                               |                       | (13,392,000)         |                                     |  | (13,392,000) |
| Foreign currency translation gain |                 |                               |                       |                      |                                     | \$ 483,590                                   | 483,590      |
| BALANCE, December 31, 2005        | \$ 2,000        | \$ 6,078,058                  | \$ 3,458,325          | \$ 65,554            | \$ (10,087,527)                     | \$ 483,590                                   | \$           |

See report of independent registered public accounting firm.

The accompanying notes are an integral part of this statement.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|   | 2005                | 2004                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                     |                     |
| Net income  | \$ 7,272,134        | \$ 5,219,468        |
| Adjustments to reconcile net income to cash provided by operating activities: |                     |                     |
| Minority Interest   | 143,283             | 202,793             |
| Depreciation  | 521,348             | 460,120             |
| Amortization  | 12,691              | 12,566              |
| Loss on disposal of equipment   | 6,660               | 12,987              |
| (Increase) decrease in assets:  |                     |                     |
| Restricted cash   | (768,061)           | (369,051)           |
| Accounts receivable   | (1,861,887)         | (2,215,615)         |
| Notes receivable  | (1,228,110)         | 383,570             |
| Other receivables   | (301,398)           | (323,049)           |
| Inventories   | (1,183,653)         | (342,910)           |
| Costs and estimated earnings in excess of billings                            | 816,821             | 904,058             |
| Employee advances   | (775,873)           | (82,054)            |
| Prepayments and deferred expenses   | (1,401,928)         | (90,249)            |
| Increase (decrease) in liabilities:   |                     |                     |
| Accounts payable  | 1,563,670           | 688,352             |
| Customer deposits   | 790,575             | (1,705,232)         |
| Other payables  | (148,537)           | 173,319             |
| Accrued liabilities   | 25,658              | 206,082             |
| Taxes payable   | (145,459)           | 22,246              |
| <b>Net cash provided by operating activities</b>                              | <b>3,337,934</b>    | <b>3,157,401</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                     |                     |
| Additions to equipment  | (360,936)           | (821,746)           |
| Additions to construction in progress   | (144,245)           |                     |
| Cash proceeds from sale of equipment  | 9,776               | 27,786              |
| <b>Net cash used in investing activities</b>                                  | <b>(495,405)</b>    | <b>(793,960)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                     |                     |
| Dividend distributions to shareholders  | (6,293,000)         | (2,089,670)         |
| Dividend distributions to minority interest shareholder                       |                     | (205,700)           |
| <b>Net cash used in financing activities</b>                                  | <b>(6,293,000)</b>  | <b>(2,295,370)</b>  |
| <b>EFFECTS OF EXCHANGE RATE CHANGE IN CASH</b>                                | <b>181,372</b>      |                     |
| <b>(DECREASE) INCREASE IN CASH</b>  | <b>(3,269,099)</b>  | <b>68,071</b>       |
| CASH, beginning of year   | 5,626,498           | 5,558,427           |
| <b>CASH, end of year</b>  | <b>\$ 2,357,399</b> | <b>\$ 5,626,498</b> |

See report of independent registered public accounting firm.

The accompanying notes are an integral part of this statement.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Background**

China Fire Protection Group Inc. (the Company) was incorporated in the British Virgin Islands as a limited liability company on June 2, 2006. The Company, through its subsidiaries is engaged in the design, development, manufacturing and sales of fire protection products and services for industrial customers in China.

On June 19, 2006, the Company entered a sales and purchase agreement with the existing five shareholders ( Original Shareholders ) of Sureland Industrial Fire Safety Co., Ltd. ( Sureland Industrial ) which agreed to transfer their 100% ownership in Sureland Industrial to the Company. The total purchase consideration was \$10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. On July 18, 2006, this transfer was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ( PRC ) was completed on July 18, 2006. As a result of this transfer, the Company became the 100% shareholder of Sureland Industrial as July 19, 2006. In accordance with laws governing foreign acquisitions of a Chinese registered company, the total transfer consideration of \$10,087,527 is required to be made within 1 year from the date of issuance of the business license.

During June and July 2006, the Company issued 33,500 shares of common stock to the Original Shareholders in consideration of a promissory note payable totaling \$10,087,527, and the total number of shares outstanding in the Company is 33,500. As a result of this transaction, the Original Shareholders exercised control over the Company.

The purchase of Sureland Industrial and the issuance of the Company's common stock has been accounted for as a reverse acquisition as a recapitalization under common control. The assets and liabilities transferred have been accounted for at historical cost. The consolidated financial statements have been presented as if the acquisition of the subsidiary occurred at the beginning of 2004.

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 1 Background, (continued)**

The consolidated financial statements as of December 31, 2005 and 2004 have been presented as if China Fire Protection Group has direct and indirect ownerships in the following entities:

| <b>Subsidiaries</b>   | <b>Place and date of incorporation</b>                | <b>Registered capital</b> | <b>Ownership</b> |
|---|---|---------------------------|------------------|
| Sureland Industrial Fire Safety Co., Ltd.<br>( Sureland Industrial )                    | The People's Republic of China,<br>February 22, 1995  | RMB 50,000,000            | 100.0%           |
| Beijing Sureland Creation Fire Prevention<br>Technology Co., Ltd. ( Sureland Creation ) | The People's Republic of China,<br>July 12, 2002      | RMB 5,000,000             | 95.0%            |
| Beijing ZhongXiao Fire Safety Technology Co.,<br>Ltd. ( Beijing Zhong Xiao )            | The People's Republic of China,<br>March 18, 2003     | RMB 5,000,000             | 99.0%            |
| Beijing Ju An Construction Fire Safety<br>Technology Co., Ltd. ( Beijing Ju An )        | The People's Republic of China,<br>May 22, 2003       | RMB 5,000,000             | 98.0%            |
| Beijing Hua An Times Fire Safety Technology<br>Co., Ltd. ( Beijing Hua An )             | The People's Republic of China,<br>September 22, 2005 | RMB 5,000,000             | 99.0%            |

**Sureland Industrial Fire Safety Co., Ltd. ( Sureland Industrial )** was established as a Sino-foreign equity joint venture in Beijing, the People's Republic of China (the PRC) on February 22, 1995 with a registered capital RMB 2,000,000. Sureland Industrial and its subsidiaries in China principally engage in the design, development, manufacturing and sale of fire protection products and services for industrial customers in China.

In October 1997, the registered capital of Sureland Industrial was increased and revised from RMB 2,000,000 to USD \$1,500,000 through the additional capital injection by the respective joint venture partners.

In July 1999, the registered capital of Sureland Industrial was further increased to USD \$2,000,000 (RMB 16,600,000) through the additional contributions from the respective joint venture partners.

In November 2000, with the foreign shareholder transferring all of its ownership in Sureland Industrial to certain PRC nationals and upon the approval of the Beijing Foreign Economic and Trade Commission, Sureland Industrial was converted from a Sino-foreign equity joint venture into a domestic limited liability company.

See report of independent registered public accounting firm.

---

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1 Background, (continued)**

In December 2001, pursuant to a shareholders' resolution, the registered capital of Sureland Industrial was increased from RMB 16,600,000 to RMB 20,750,000, the increased portion was fully subscribed and paid by a PRC domestic company in cash of RMB 9,000,000.

On April 11, 2002, the Beijing People's Government Economic System Restructuring Office approved the conversion of Sureland Industrial from a limited liability company to a joint stock company with limited liability, by converting at the ratio of 1 to 1, based upon the audited net assets of Sureland Industrial of RMB 50,000,000 as of December 31, 2001, determined in accordance with PRC accounting principles and regulations, into the registered capital of Sureland Industrial.

At its establishment on April 28, 2002, the registered capital of Sureland Industrial was RMB 50,000,000 divided into 50,000,000 domestic shares of RMB1.00 each.

On April 3, 2006, Sureland Industrial signed a sales and purchase agreement with Beijing Xin Da Bei Technology Company Limited to purchase the 5% ownership of Sureland Creation, based on the net asset value of Sureland Creation as of December 31, 2005. Transaction was completed on May 22, 2006, and Sureland Industrial now owns 100% of all its subsidiaries.

On June 12, 2006, the Beijing Administration for Industry and Commerce approved the conversion of Sureland Industrial from a joint stock company to a limited liability company. The registered capital remains unchanged at RMB 50,000,000.

**Beijing Sureland Creation Fire Prevention Technology Co., Ltd. ( Sureland Creation )** was a subsidiary established in the PRC as a limited liability company on July 12, 2002. Upon the establishment of Sureland Creation, 95% and 5% of its registered capital were contributed, in cash, by Sureland Industrial and Mr. Zhao Shuang Rui, a non-executive director of Sureland Industrial, respectively. On November 29, 2002, Mr. Zhao Shuang Rui transferred all his equity interests in Sureland Creation to Beijing Xin Da Bei Technology Company Limited. On May 22, 2006, Beijing Xin Da Bei Technology Company Limited transferred all the equity interest in Sureland Creation to Sureland Industrial. From May 22, 2006 onwards, Sureland Industrial owns 100% of equity in Sureland Creation and all subsidiaries of Sureland Industrial.

**Beijing Zhong Xiao Fire Safety Technology Co., Ltd. ( Beijing Zhong Xiao )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on March 18, 2003. Upon its establishment, 80% and 20% of its registered capital were contributed by Sureland Industrial, partly in cash and partly in equipment and Sureland Creation in cash, respectively. The equipment contributed by Sureland Industrial consisted of certain machinery and office equipment with aggregate amount of approximately RMB1.2 million, being then the total carrying values of such assets in Sureland Industrial's books.

See report of independent registered public accounting firm.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1 Background, (continued)**

**Beijing Ju An Construction Fire Safety Technology Co., Ltd. ( Beijing Ju An )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on May 22, 2003. Upon its establishment, 60% and 40% of its registered capital were contributed, in cash, by Sureland Industrial and Sureland Creation, respectively.

**Beijing Hua An Times Fire Safety Technology Co., Ltd. ( Beijing Hua An )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on September 22, 2005 upon its establishment, 80% and 20% of its registered capital were contributed, in cash, by Sureland Industrial and Sureland Creation, respectively.

**Note 2 Summary of significant accounting policies**

**The reporting entity**

The consolidated financial statements of China Fire Protection Group Inc. and Subsidiaries (referred to as the Company ) reflect of 100% owned subsidiary, Sureland Industrial, 95% owned subsidiary, Sureland Creation, 99% owned subsidiary, Beijing Fire Safety, 98% owned subsidiary, Beijing Ju An Construction, and 99% owned subsidiary, Beijing Hua An. The consolidated financial statements have been presented as if the acquisition of the subsidiaries occurred at the beginning of 2004 due to the common management and ownership. The consolidated financial statements generally reflect only the activities of all five subsidiaries at their historical cost since the parent company, China Fire Protection Group, had no activities for the years ended December 31, 2005 and 2004.

**Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of China Fire Protection Group and its subsidiaries (referred to as the Company ). All material intercompany transactions and balances have been eliminated in the consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company s subsidiaries.

**Balance sheet classifications**

The Company include in current assets for accounts receivable under system contracting projects (principally retentions) that may extend beyond one year. A one-year time period is used as the basis for classifying all other current assets and liabilities.

See report of independent registered public accounting firm.

---

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

**Revenue recognition**

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

1. Revenue from system contracting projects comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct material, direct labor and an appropriate proportion of variable and fixed construction overheads. When the outcome of a system contracting project can be estimated reliably, revenue from the contract is recognized on the percentage of completion method, measured by reference to the proportion of contract costs incurred to date to the estimated total cost of the relevant contract.
2. Revenue from product sales is recognized when the goods are delivered and title has passed. Product sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.
3. Revenue from the rendering of Maintenance Services is recognized when such services are provided.
4. Interest income is recognized on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.
5. Dividend income is recognized when the shareholders' right to receive payment has been established.
6. Provision is made for foreseeable losses as soon as they are anticipated by management.
7. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract consumers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

For the year ended December 31, 2005, revenue from system contracting projects and other, and revenue from product sales was \$12,003,651 and \$9,570,563, respectively.

For the year ended December 31, 2004, revenue from system contracting projects and other, and revenue from product sales was \$10,173,249 and \$6,283,945, respectively.

See report of independent registered public accounting firm.



**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Revenue recognition, (continued)**

The Company reviews SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information and concludes that the Company has been operating in one operating segment.

**Foreign currency translation**

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

Translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of shareholders' equity and amounted to \$483,590 and \$0 as of December 31, 2005 and 2004, respectively. The balance sheet amounts with the exception of equity at December 31, 2005 were translated at 8.06 RMB to 1.00 USD as compared to 8.26 RMB at December 31, 2004. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the years ended December 31, 2005, and 2004 were 8.18 RMB and 8.26 RMB, respectively.

**Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with 5% residual value. The depreciation expense for the years ended December 31, 2005 and 2004 amounted to \$521,348 and \$460,120 respectively.

Estimated useful lives of the assets are as follows:

|  | <b>Useful Life</b> |
|--|--------------------|
| Buildings and improvement                                    | 40 years           |
| Transportation equipment                                     | 5 years            |
| Machinery  | 10 years           |
| Office equipment   | 5 years            |
| Furniture  | 5 years            |
| See report of independent registered public accounting firm. |                    |

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Plant and equipment, (continued)**

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

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

Long-term assets of the Company are reviewed annually as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2005, the Company expects these assets to be fully recoverable.

Plant and equipment consist of the following at December 31:

|                               | <b>2005</b>         | <b>2004</b>         |
|-------------------------------|---------------------|---------------------|
| Buildings and improvement     | \$ 1,872,866        | \$ 1,827,650        |
| Transportation equipment      | 1,925,755           | 1,727,194           |
| Machinery                     | 559,150             | 498,014             |
| Office equipment              | 863,334             | 716,871             |
| Furniture                     | 58,099              | 56,694              |
| Construction in progress      | 146,370             |                     |
| <b>Totals</b>                 | <b>5,425,574</b>    | <b>4,826,423</b>    |
| Less accumulated depreciation | 1,810,200           | 1,266,235           |
| <b>Totals</b>                 | <b>\$ 3,615,374</b> | <b>\$ 3,560,188</b> |

**Use of estimates**

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

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

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Cash and concentration of risk**

Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the People's Republic of China. Total cash (including restricted cash balances) in these banks at December 31, 2005 and 2004, amounted to \$3,874,629 and \$6,356,410, respectively of which no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

**Restricted cash**

Restricted cash represents cash required to be deposited to bank but subject to withdrawal with restrictions by its system contracting projects and product sales customers to guarantee its contracts will be performed. The deposit cannot be drawn or transferred by the Company until the restriction period expired. The amounts are \$1,535,088 and \$737,430 as of December 31, 2005 and 2004, respectively.

|                             | 2005          | 2004        |
|-----------------------------|---------------|-------------|
| Restricted cash             |               |             |
| Product sales               | \$ 1,121,591  | \$ 541,899  |
| System contracting projects | 413,497       | 195,531     |
| <br>Total Restricted Cash   | <br>1,535,088 | <br>737,430 |

In light of the usefulness and nature of the restricted cash, the Company believes it is appropriate to consider the restricted cash as portion of working capital and the increase or decrease of the deposit are actually associated with operating, thus the net change of the restricted cash may be included in the section of cash flow from operating activity.

**Inventories**

Inventories are stated at the lower of cost or market, using weighted average method. Inventories consisted of the followings at December 31:

|                  | 2005             | 2004             |
|------------------|------------------|------------------|
| Raw materials    | \$ 376,795       | \$ 121,739       |
| Finished goods   | 1,943,152        | 928,065          |
| Work in progress | 79,965           | 127,656          |
| Consumables      | 10,108           | 2,224            |
| <br>Totals       | <br>\$ 2,410,020 | <br>\$ 1,179,684 |

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Inventories. (continued)**

Inventories consist of raw materials, work in progress, finished goods and consumables. Raw materials consist primarily of materials used in production. Finished goods consist primarily of equipments used in project contract. The cost of finished goods included direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling costs are also included in the cost of inventory. The Company reviews its inventory annually for possible obsolete goods or to determine if any reserves are necessary for potential obsolescence. As of December 31, 2005 and 2004, the Company has determined that no reserves are necessary.

**Accounts receivable**

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

Accounts receivable consists of the following at December 31:

|                             | <b>2005</b>  | <b>2004</b>  |
|-----------------------------|--------------|--------------|
| Accounts receivable:        |              |              |
| Product sales               | \$ 4,724,947 | \$ 2,326,819 |
| Maintenance services        | 358,392      | 309,028      |
| System contracting projects | 3,133,221    | 3,315,465    |
| Total accounts receivable   | 8,216,560    | 5,951,312    |
| Allowance for bad debts     | (529,300)    | (293,637)    |
| Accounts receivable, net    | \$ 7,687,260 | \$ 5,657,675 |

**Costs and estimated earnings in excess of billings**

|   | <b>As of December 31</b> |              |
|---|--------------------------|--------------|
|   | <b>2005</b>              | <b>2004</b>  |
| Contracts costs incurred plus recognized profits less recognized losses to date | \$ 19,942,914            | \$ 7,848,921 |
| Less progress billings  | 17,316,862               | 4,477,603    |
| Costs and estimated earnings in excess of billings                              | \$ 2,626,052             | \$ 3,371,318 |

See report of independent registered public accounting firm.



**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

**Costs and estimated earnings in excess of billings, (continued)**

At December 31, 2005 and 2004, retentions held by customers of system contracting projects included in the Company's accounts receivable amounted to \$656,057 and \$625,867, respectively. This balance represents portion of billings made by the Company but held for payment by the customer pending satisfactory completion of the project. Retainage is generally collected within one year of the completion. At December 31, 2005 and 2004, retainage expected to be collected after December 31, 2006 and 2005 are \$524,846 and \$500,694, respectively.

At December 31, 2005 and 2004, advances received from customers for contract works relating to system contracting projects included in the Company's customer deposits amounted to \$838,123 and \$617,745, respectively.

**Financial instruments**

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

**Intangible assets**

All land in the People's Republic of China is owned by the government and cannot be sold to any individual or company. However, the government grants the user a land use right (the Right) to use the land. The Company has acquired land use rights during the year ending in 1999 for a total amount of \$635,757. The Company has the right to use this land for 50 years. As of December 31, 2005 and 2004, accumulated amortization amounted to \$96,289 and \$83,723, respectively. The costs of these rights are being amortized over fifty years using the straight-line method.

Intangible assets of the Company are reviewed annually as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2005, the Company expects these assets to be fully recoverable.

Total amortization expense for the years ended December 31, 2005 and 2004 amounted to \$12,691 and \$12,566 respectively.

See report of independent registered public accounting firm.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

**Income taxes**

The Company has adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consist of taxes currently due plus deferred taxes. There are no deferred tax amounts at December 31, 2005 and 2004.

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

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

In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

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

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Income taxes. (continued)**

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

Sureland Creation was granted income tax exempt in the period between July 12, 2002 and December 31, 2004 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2005 to December 31, 2007.

Beijing Zhong Xiao was granted income tax exempt in the period between March 18, 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

Beijing Ju An Construction was granted income tax exempt in the period between May 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

Beijing Hua An was granted income tax exempt in the period between September 2005 and December 31, 2007 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 2008 to December 31, 2010.

The provision for income taxes for the years ended December 31, consisted of the following:

|   | 2005              | 2004              |
|---|-------------------|-------------------|
| Provision for China Income Tax          | \$ 184,473        | \$ 116,958        |
| Provision for China Local Tax           | 18,447            | 11,696            |
| <b>Total provision for income taxes</b> | <b>\$ 202,920</b> | <b>\$ 128,654</b> |

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the years ended December 31:

|   | 2005        | 2004        |
|---|-------------|-------------|
| U.S. Statutory rates                    | 34.0%       | 34.0%       |
| Foreign income not recognized in USA    | (34.0)      | (34.0)      |
| China income taxes                      | 2.7         | 2.3         |
| <b>Total provision for income taxes</b> | <b>2.7%</b> | <b>2.3%</b> |

The estimated tax savings for the years ended December 31, 2005 and 2004 amounted to \$1,977,235 and \$2,157,478, respectively.

See report of independent registered public accounting firm.



**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of significant accounting policies, (continued)****Value Added Tax**

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

**Taxes payable**

Taxes payable as of December 31, 2005 and 2004 consisted of the followings:

|                            | <b>2005</b>       | <b>2004</b>       |
|----------------------------|-------------------|-------------------|
| VAT taxes (credit) payable | \$ (25,025)       | \$ 279,804        |
| Income taxes payable       | 121,301           | 61,953            |
| Sales taxes                | 445,889           | 338,604           |
| Other taxes payable        | 61,846            | 53,067            |
| <b>Total</b>               | <b>\$ 604,011</b> | <b>\$ 733,428</b> |

**Recently issued accounting pronouncements**

In March 2004, the FASB issued EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued Staff Position EITF 03-1-1, which delays the effective date until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-1 to investments in securities that are impaired; however, the disclosure requirements are effective for annual periods ending after June 15, 2004. Management does not currently believe adoption will have a material impact on the Company's financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that "under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities.

See report of independent registered public accounting firm.

---

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

Recently issued accounting pronouncements. (continued)

The provisions of SFAS 151 shall be applied prospectively and are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. The Company's adoption of SFAS No. 151 is not currently expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123(R) (revised 2004), *Share-Based Payment*, which amends FASB Statement No. 123 and will be effective for public companies for interim or annual periods beginning after June 15, 2005. The revised standard requires, among other things that compensation cost for employee stock options be measured at fair value on the grant date and charged to expense over the employee's requisite service period for the option. Due to the absence of observable market prices for employee stock options, the standard indicates that the fair value of most stock options will be determined using an option-pricing model. The Company's adoption of SFAS No. 123(R) is not currently expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle.

This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The Company's adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial position or results of operations.

In March 2005, the FASB published FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, which clarifies that the term, conditional asset retirement obligations, as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of the Company's fiscal 2006. The adoption of this Interpretation is not expected to have a material effect on the Company's consolidated financial position or results of operations.

See report of independent registered public accounting firm.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements, (continued)**

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154). SFAS No. 154 replaces APB No. 20 (APB 20) and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. APB 20 previously in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS No. 154 enhances the consistency of financial information between periods. SFAS No. 154 will be effective beginning with the Company's first quarter of fiscal year 2006. The Company does not expect that the adoption of SFAS No. 154 will have a material impact on its results of operations, financial position or cash flows.

In June 2005, the EITF reached a consensus on Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements (EITF 05-06). EITF 05-06 provides guidance for determining the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease, collectively referred to as subsequently acquire leasehold improvements). EITF 05-06 provides that the amortization period used for the subsequently acquired leasehold improvements to be the lesser of (a) the subsequently acquired leasehold improvements useful lives, or (b) a period that reflects renewals that are reasonably assured upon the acquisition or the purchase. EITF 05-06 is effective on a prospective basis for subsequently acquired leasehold improvements purchased or acquired in periods beginning after the date of the FASB's ratification, which was on June 29, 2005. The Company does not anticipate that EITF 05-06 will have a material impact on its consolidated results of operations.

In July 2005, the Financial Accounting Standards Board (FASB) issued an Exposure Draft of a proposed Interpretation Accounting for Uncertain Tax Positions an interpretation of FASB Statement No. 109. Under the proposed Interpretation, a company would recognize in its financial statements its best estimate of the benefit of a tax position, only if the tax position is considered probable of being sustained on audit based solely on the technical merits of the tax position. In evaluating whether the probable recognition threshold has been met, the proposed Interpretation would require the presumption that the tax position will be evaluated during an audit by taxing authorities. The proposed Interpretation would be effective as of the end of the first fiscal year ending after December 15, 2005, with a cumulative effect of a change in accounting principle to be recorded upon the initial adoption. The proposed Interpretation would apply to all tax positions and only benefits from tax positions that meet the probable recognition threshold at or after the effective date would be recognized. The Company is currently analyzing the proposed Interpretation and has not determined its potential impact on our Consolidated Financial Statements. While we cannot predict with certainty the rules in the final Interpretation, there is risk that the final Interpretation could result in a cumulative effect charge to earnings upon adoption, increases in future effective tax rates, and/or increases in future interperiod effective tax rate volatility.

See report of independent registered public accounting firm.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements, (continued)**

In October 2005, FASB Staff Position (FSB) FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period was issued. This FSP concluded that rental costs associated with ground or building operating leases that are incurred during a construction period be expensed. The guidance in the FSP is required to be applied to the first reporting period beginning after December 15, 2005. The adoption of this pronouncement is not expected to have a material impact on the Company's financial position or results of operations.

**Note 3 Supplemental disclosure of cash flow information**

Interest paid amounted to \$0 and \$0 for the years ended December 31, 2005 and 2004 respectively.

Income tax payments amounted to \$148,874 and \$214,792 for the years ended December 31, 2005 and 2004 respectively.

**Note 4 Notes receivable**

Notes receivable represents trade accounts receivable due from various customers where the customer's bank has guaranteed the payment of the receivable. This amount is non-interest bearing and is normally paid within three to six months. The Company has the ability to submit their request for payment to the customer's bank earlier than the scheduled payment date. However, the Company will incur an interest charge and a processing fee when they submit the payment request early. The Company's notes receivable is in the amount of \$1,246,200 and \$0 as of December 31, 2005 and 2004, respectively.

**Note 5 Prepayments and deferred expenses**

Prepayments and deferred expenses are monies deposited or advanced to subcontractors to perform services on system contracting projects. Some subcontractors require a certain amount of money to be deposited as a guarantee payment in order for them start performing the services. Prepayments and deferred expenses also include monies deposited or advanced to vendors on future inventory purchases. Some of the Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive their purchases on a timely basis. The total outstanding amount was \$1,704,219 and \$332,632 as of December 31, 2005 and 2004, respectively.

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6 Customer deposits**

Customer deposits represent amounts advanced by customers on product orders, maintenance services deposits and system contracting projects deposits. The product or service normally is shipped or performed within six months after receipt of the advance payment and the related sale is recognized in accordance with the Company's revenue recognition policy. As of December 31, 2005 and 2004, customer deposits amounted to \$1,707,220 and \$883,105, respectively.

**Note 7 Related party transactions and contingencies**

During June and July 2006, the Company issued 33,500 shares of common stock to the Original Shareholders in consideration of a promissory note payable totaling \$10,087,527. As a result of this transaction, the Original Shareholders exercised control over the Company. In accordance with laws governing foreign acquisitions of a Chinese registered company, the total transfer consideration of \$10,087,527 is required to be made within 1 year from July 19, 2006, the date of issuance of the Company's business license.

**Note 8 Major customers and suppliers**

The Company has five major customers which represent approximately 35% and 38% of the Company's total sales for the years ended December 31, 2005 and 2004 respectively.

For the years ended December 31, 2005 and 2004, the Company purchases approximately 19% and 24%, respectively, of their raw materials from five major suppliers.

**Note 9 Minority interest**

Minority interest represents the outside shareholders' 5% interest in Sureland Creation, 1% interest in Beijing Zhong Xiao, 2% interest in Beijing Ju An and 2% interest in Beijing Hua An.

**Note 10 Other income and expenses, net**

Other income and expense for the years ended December 31 consist of the following:

|                            | <b>2005</b> | <b>2004</b> |
|----------------------------|-------------|-------------|
| Interest income            | \$ 46,453   | \$ 79,872   |
| Other miscellaneous income | 531,507     | 264,976     |
| Other nonoperating expense | (287)       | (545)       |
| Total other income         | \$ 577,673  | \$ 344,303  |

Other miscellaneous income represents the valued-added tax and sales tax refunds from the local tax authority in PRC China.

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Retirement plan**

The Company and its subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute 12% and 20% of its payroll costs to the central pension scheme in 2005 and 2004, respectively and has no further obligations for post-retirement benefits.

The contributions are charged to the income statement of the Company as they become payable in accordance with the rules of the scheme. The aggregate contributions of the Company to retirement benefit schemes amounted to \$55,880 and \$25,964 for the years ended December 31, 2005 and 2004, respectively.

**Note 12 Intercompany and minority interest distributions**

On December 31, 2004 and 2005, the board of directors of Sureland Creation approved and declared dividends of USD 4,114,000 (RMB 34,000,000) and USD 2,728,000 (RMB 22,000,000), respectively.

On December 31, 2004 and 2005, the board of directors of Beijing Zhong Xiao approved and declared dividends of USD 1,573,000 (RMB 13,000,000) and USD 2,480,000 (RMB 20,000,000), respectively.

On December 31, 2004 and 2005, the board of directors of Beijing Ju An approved and declared dividends of USD 1,815,000 (RMB 15,000,000) and USD 1,984,000 (RMB 16,000,000), respectively.

The following table summarizes the dividend distributions in direct proportion to their ownership percentages:

| <b>Date</b>                         |     | <b>INTER-<br/>COMPANY</b> | <b>MINORITY<br/>SHAREHOLDER</b> | <b>TOTALS</b> |
|-------------------------------------|-----|---------------------------|---------------------------------|---------------|
| December 31, 2003 Balance           | RMB | 5,599,285                 | 1,700,000                       | 7,299,285     |
| December 31, 2003 Balance           | USD | \$ 677,514                | \$ 205,700                      | \$ 883,214    |
| <b>Year Ended December 31, 2004</b> |     |                           |                                 |               |
| Amount declared                     | RMB | 60,300,000                | 1,700,000                       | 62,000,000    |
| Amount paid                         |     |                           | (1,700,000)                     | (1,700,000)   |
| December 31, 2004 Balance           | RMB | 65,899,285                | 1,700,000                       | 67,599,285    |
| December 31, 2004 Balance           | USD | \$ 7,973,813              | \$ 205,700                      | \$ 8,179,513  |
| <b>Year Ended December 31, 2005</b> |     |                           |                                 |               |
| Amount declared                     | RMB | 56,900,000                | 1,100,000                       | 58,000,000    |
| Amount paid                         |     |                           |                                 |               |
| December 31, 2005 Balance           | RMB | 122,799,285               | 2,800,000                       | 125,599,285   |
| December 31, 2005 Balance           | USD | \$ 15,227,111             | \$ 347,200                      | \$ 15,574,311 |

The intercompany dividend payable amounted to \$15,227,111 and \$7,973,813 at December 31, 2005 and 2004, respectively, and has been eliminated within the consolidation.

See report of independent registered public accounting firm.

F-24

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Dividends and statutory reserves**

On December 21, 2005 and December 31, 2005, the board of directors of Sureland Industrial approved and declared dividends of USD 12,400,000 (RMB 100,000,000) and USD 992,000 (RMB 8,000,000), respectively.

The dividends paid or declared by the Company to its Original Shareholders in respect of each of the relevant periods were as follows.

|  | <b>Year Ended December 31</b> |                     |
|--|-------------------------------|---------------------|
|  | <b>2005</b>                   | <b>2004</b>         |
| Dividend payable to original shareholders, beginning       | \$ 1,300,750                  | \$ 3,390,420        |
| Dividend declared to original shareholders                 | 13,392,000                    |                     |
| Dividend paid to original shareholders                     | (6,293,000)                   | (2,089,670)         |
| Dividend payable to original shareholders, ending          | 8,399,750                     | 1,300,750           |
| Dividend payable to minority interest shareholders, ending | 347,200                       | 205,700             |
| Foreign currency translation loss                          | 32,250                        |                     |
| <b>Total dividend payable</b>                              | <b>\$ 8,779,200</b>           | <b>\$ 1,506,450</b> |

The payment of future dividends will be determined and proposed by the Company's board of directors. The payment of dividends will depend upon, among other things, the future earnings, capital requirements and financial condition and general business conditions of the Company.

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

**Surplus reserve fund**

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

The transfer to this reserve must be made before distribution of any dividend to shareholders. For the years ended December 31, 2005 and 2004 the Company transferred \$608,158, and \$633,212, respectively, representing 10% of the year's net income determined in accordance with PRC accounting rules and regulations, to this reserve. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

See report of independent registered public accounting firm.



**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Dividends and statutory reserves, (continued)****Common welfare fund**

The Company is required to transfer 5% to 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to the statutory common welfare fund. For the year ended December 31, 2005, the Company transferred \$304,079 and \$316,606 respectively, representing 5% of the year's net income determined in accordance with PRC accounting rules and regulations, to this reserve. This fund can only be utilized on capital items for the collective benefit of the Company's employees, such as construction of dormitories, cafeteria facilities, and other staff welfare facilities. This fund is non-distributable other than upon liquidation. The transfer to this fund must be made before distribution of any dividend to shareholders.

Starting on January 1, 2006, the PRC accounting rules and regulations does not require the company to transfer 5% to 10% of its net income to the statutory common welfare fund. The outstanding common welfare fund as of December 31, 2005 will be transferring to surplus reserve fund.

**Enterprise fund**

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required and the company did not make any contribution to this fund during 2005.

**Note 14 Commitments****Operating lease commitments**

At December 31, 2005, the Company has the following total future minimum lease payments under an operating lease:

| <b>Year Ended December 31,</b> | <b>Amount</b> |
|--------------------------------|---------------|
| 2006                           | 156,119       |
| 2007                           | 157,235       |
| 2008                           | 13,103        |
| Thereafter                     |               |

This operating lease is under a three year term and it is cancelable with three months prior notice. Total rent expense for the years ended December 31, 2005 and 2004 amounted to \$129,939 and \$0, respectively.

See report of independent registered public accounting firm.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 15 Subsequent event**

**Reorganization**

On May 22, 2006, Beijing Xin Da Bei Technology Company Limited transferred all the equity interest in Sureland Creation to Sureland Industrial. From May 22, 2006 onwards, Sureland Industrial owns 100% of equity in all subsidiaries.

On June 19, 2006, the Company entered a sales and purchase agreement with the existing five shareholders (Original Shareholders) of Sureland Industrial Fire Safety Co., Ltd. ( Sureland Industrial ) which agreed to transfer their 100% ownership in Sureland Industrial to the Company. The total purchase consideration was \$10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. On July 18, 2006, this transfer was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ( PRC ) was completed on July 18, 2006. As a result of this transfer, the Company became the 100% shareholder of Sureland Industrial as June 19, 2006. In accordance with laws governing foreign acquisitions of a Chinese registered company, the total transfer consideration of \$10,087,527 is required to be made within 1 year from the date of issuance of the business license.

On June 22, 2006, the Company signed a sales and purchase agreement with the existing two shareholders, Sureland Industrial and Vyle Investment Inc., to become 100% shareholder of Sureland Equipment. The purchase price was based on the registered capital of Sureland Equipment. On August 4, 2006, this transaction was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ( PRC ) was completed on August 15, 2006.

**Sureland Industrial Fire Equipment Co., Ltd. ( Sureland Equipment )** was established as a Sino-foreign equity joint venture in Beijing, the People's Republic of China (the PRC) on April 12, 2006 with a registered capital USD 660,000. Upon its establishment, 75% and 25% of its registered capital were contributed, in cash, by Sureland Industrial and Vyle Investment Inc., respectively.

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 15 Subsequent event, (continued)****Reorganization, (continued)**

The following is a list of subsidiaries which the Company has direct and indirect ownerships after reorganization:

| <b>Subsidiaries</b>  | <b>Place and date of incorporation</b>             | <b>Registered capital</b> | <b>Ownership</b> |
|--|--|---------------------------|------------------|
| Sureland Industrial Fire Safety Co., Ltd. ( Sureland Industrial )                    | The People s Republic of China, February 22, 1995  | RMB 50,000,000            | 100.0%           |
| Beijing Sureland Creation Fire Prevention Technology Co., Ltd. ( Sureland Creation ) | The People s Republic of China, July 12, 2002      | RMB 5,000,000             | 100.0%           |
| Beijing ZhongXiao Fire Safety Technology Co., Ltd. ( Beijing Zhong Xiao )            | The People s Republic of China, March 18, 2003     | RMB 5,000,000             | 100.0%           |
| Beijing Ju An Construction Fire Safety Technology Co., Ltd. ( Beijing Ju An )        | The People s Republic of China, May 22, 2003       | RMB 5,000,000             | 100.0%           |
| Beijing Hua An Times Fire Safety Technology Co., Ltd. ( Beijing Hua An )             | The People s Republic of China, September 22, 2005 | RMB 5,000,000             | 100.0%           |
| Sureland Industrial Fire Equipment Co., Ltd. ( Sureland Equipment )                  | The People s Republic of China, April 12, 2006     | USD \$ 660,000            | 100.0%           |

During June and July 2006, the Company issued 33,500 shares of common stock to the Original Shareholders in consideration of a promissory note payable totaling \$10,087,527, and the total number of shares outstanding in the Company is 33,500. As a result of this transaction, the Original Shareholders exercised control over the Company.

See report of independent registered public accounting firm.

---

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 15 Subsequent event, (continued)**

**Reverse acquisition**

On October 27, 2006, Unipro Financial Services, Inc. ( Unipro ), a Florida corporation, acquired 100% of the equity interests in the Company from the shareholders of the Company in exchange for 701,538.46 shares of the Company's Series A Convertible Preferred Stock ( Convertible Stock ). The Convertible Preferred Stock will automatically be converted to 22,800,000 shares of Common Stock when an amendment to the Articles of Incorporation increasing the number of authorized shares of Common Stock, which has already been adopted by shareholders acting by consent.

On October 27, 2006, Unipro entered into and closed a Securities Purchase Agreement ( SPA ) with the Company and certain Investors (the Investors ). Under the SPA, Unipro sold (i) an aggregate of 1,538,604 shares of Common Stock (the Common Stock ), at a purchase price of \$3.25 per share, (ii) Series A Warrants exercisable until October 27, 2011 to acquire an aggregate of 307,721 shares of Common Stock (subject to customary adjustments) at an exercise price of \$3.58 per share ( Series A Warrants ) and (iii) Series B Warrants exercisable until October 27, 2011 to acquire an aggregate of 307,721 shares of Common Stock (subject to customary adjustments) at an exercise price of \$4.88 per share ( Series B Warrants ). Under the SPA, certain Investors received right to purchase, before December 11, 2006, an aggregate of 923,077 shares of Common Stock (subject to customary adjustments) at \$3.25 per share and an aggregate of 184,615 Series A Warrants and 184,615 Series B Warrants. In connection with the SPA, Unipro granted to H.C. Wainwright & Co., Inc., the placement agent, warrants to purchase 115,395 shares at \$3.25 per share.

**Stock Option Plan**

Effective July 1, 2006, the Company adopted a stock option plan. Under this plan, which expires on June 30, 2016, the Company granted stock options to the executives and management team of Sureland Industrial to purchase up to 750,000 shares of common stock of the Company at a price of \$1.25 per share. The vesting schedule of this stock option plan is as follows, 50% of the total number of shares granted is vested immediately from the date of the grant. The remaining 50% of the total number of shares granted shall be vested every quarter over the next two years from the vesting commencement date. The amount of shares vested every quarter is 1/16 of the total number of shares granted. This option is terminated three months after ceasing of employment relationship.

The Company entered into a security exchange agreement with Unipro on October 27, 2006. Based upon this agreement, effective October 27, 2006, stock options granted by the Company shall be converted into 750,000 options to purchase Unipro common stock, \$0.001 par value, on the same terms and conditions as the original stock option plan adopted by the Company.

See report of independent registered public accounting firm.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2006 AND DECEMBER 31, 2005**

|   | September 30,<br>2006<br>Unaudited | December 31,<br>2005 |
|---|------------------------------------|----------------------|
| <b>ASSETS</b>   |                                    |                      |
| <b>CURRENT ASSETS:</b>  |                                    |                      |
| Cash  | \$ 2,174,780                       | \$ 2,357,399         |
| Restricted cash   | 1,787,880                          | 1,535,088            |
| Accounts receivable, net of allowance for doubtful accounts of \$635,098 and \$529,300 as of September 30, 2006 and December 31, 2005, respectively | 9,778,705                          | 7,687,260            |
| Notes receivable  | 648,192                            | 1,246,200            |
| Other receivables   | 941,160                            | 726,484              |
| Inventory   | 4,311,205                          | 2,410,020            |
| Costs and estimated earnings in excess of billings  | 2,813,162                          | 2,626,052            |
| Employee advances   | 1,834,951                          | 1,325,035            |
| Prepayments and deferred expenses   | 2,506,870                          | 1,704,219            |
| <b>Total current assets</b>   | <b>26,796,905</b>                  | <b>21,617,757</b>    |
| <b>PLANT AND EQUIPMENT, net</b>   | <b>3,651,698</b>                   | <b>3,615,374</b>     |
| <b>OTHER ASSETS:</b>  |                                    |                      |
| Long term investment  | 495,031                            |                      |
| Deferred expenses non current   | 45,360                             | 59,238               |
| Intangible assets land use right, net of accumulated amortization   | 554,574                            | 539,468              |
| <b>Total other assets</b>   | <b>1,094,965</b>                   | <b>598,706</b>       |
| <b>Total assets</b>   | <b>\$ 31,543,568</b>               | <b>\$ 25,831,837</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                                    |                      |
| <b>CURRENT LIABILITIES:</b>   |                                    |                      |
| Accounts payable  | \$ 5,452,966                       | \$ 3,950,144         |
| Customer deposits   | 3,342,500                          | 1,707,220            |
| Other payables  | 463,962                            | 260,874              |
| Investment payable  | 10,087,527                         | 10,087,527           |
| Accrued liabilities   | 2,162,710                          | 365,131              |
| Dividend payable  | 1,012,800                          | 8,779,200            |
| Taxes payable   | 622,797                            | 604,011              |
| <b>Total current liabilities</b>  | <b>23,145,262</b>                  | <b>25,754,107</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                    |                      |
| <b>MINORITY INTEREST</b>  |                                    | <b>77,730</b>        |
| <b>SHAREHOLDERS EQUITY:</b>   |                                    |                      |
|   | <b>33,500</b>                      | <b>33,500</b>        |

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

|   |                      |                      |
|---|----------------------|----------------------|
| Common stock, \$1 par value, 50,000 shares authorized, 33,500 shares issued and outstanding at September 30, 2006 and December 31, 2005 |                      |                      |
| Additional paid-in-capital  | 6,764,558            | 6,046,558            |
| Statutory reserves  | 3,458,325            | 3,458,325            |
| Retained earnings   | 7,414,915            | 65,554               |
| Owner contribution receivable   | (10,087,527)         | (10,087,527)         |
| Accumulated other comprehensive income  | 814,535              | 483,590              |
| <b>Total shareholders' equity</b>   | <b>8,398,306</b>     |                      |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 31,543,568</b> | <b>\$ 25,831,837</b> |

The accompanying notes are an integral part of this statement.

F-30

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME****FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****(Unaudited)**

|  | <b>Three months ended<br/>September 30</b> |              | <b>Nine months ended<br/>September 30</b> |               |
|--|--|--------------|---|---------------|
|  | <b>2006</b>                                | <b>2005</b>  | <b>2006</b>                               | <b>2005</b>   |
| REVENUES   | \$ 8,218,482                               | \$ 6,094,226 | \$ 23,545,455                             | \$ 15,256,821 |
| COST OF REVENUES   | 4,394,287                                  | 3,275,728    | 11,420,177                                | 5,899,100     |
| GROSS PROFIT   | 3,824,195                                  | 2,818,498    | 12,125,278                                | 9,357,721     |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                   | 2,663,346                                  | 1,104,402    | 5,278,138                                 | 3,270,815     |
| INCOME FROM OPERATIONS   | 1,160,849                                  | 1,714,096    | 6,847,140                                 | 6,086,906     |
| OTHER INCOME, NET OF OTHER EXPENSES                            | 352,857                                    | 84,708       | 541,402                                   | 189,852       |
| INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST | 1,513,706                                  | 1,798,804    | 7,388,542                                 | 6,276,758     |
| PROVISION FOR INCOME TAXES (CREDITS)                           | (17,619)                                   | 52,848       | 39,181                                    | 101,566       |
| NET INCOME BEFORE MINORITY INTEREST                            | 1,531,325                                  | 1,745,956    | 7,349,361                                 | 6,175,192     |
| MINORITY INTEREST  |  | 43,205       |   | 111,662       |
| NET INCOME   | 1,531,325                                  | 1,702,751    | 7,349,361                                 | 6,063,530     |
| OTHER COMPREHENSIVE INCOME:                                    |  |              |   |               |
| Foreign currency translation adjustment                        | 210,268                                    | 481,436      | 330,945                                   | 481,436       |
| COMPREHENSIVE INCOME   | \$ 1,741,593                               | \$ 2,184,187 | \$ 7,680,306                              | \$ 6,544,966  |
| WEIGHTED AVERAGE NUMBER OF SHARES                              | 33,500                                     | 33,500       | 33,500                                    | 33,500        |
| EARNING PER SHARE BASIC AND DILUTED                            | \$ 45.71                                   | \$ 50.83     | \$ 219.38                                 | \$ 181.00     |

The accompanying notes are an integral part of this statement.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

|  | Common Stock |           | Additional<br>paid-in<br>capital | Statutory<br>reserves | Retained<br>earnings | Owner<br>contribution<br>receivable | Accumulated other<br>comprehensive<br>income | Total         |
|--|--------------|-----------|----------------------------------|-----------------------|----------------------|-------------------------------------|--|---------------|
|  | Shares       | Amount    |                                  |                       |                      |                                     |  |               |
| BALANCE, December 31,<br>2004                                    | 33,500       | \$ 33,500 | \$ 6,046,558                     | \$ 2,546,088          | \$ 7,097,657         | \$ (10,087,527)                     | \$   | \$ 5,636,276  |
| Net income   |              |           |                                  |                       | 6,063,530            |                                     |  | 6,063,530     |
| Foreign currency translation<br>gain                             |              |           |                                  |                       |                      |                                     | 481,436                                      | 481,436       |
| BALANCE, September 30,<br>2005 (unaudited)                       | 33,500       | \$ 33,500 | \$ 6,046,558                     | \$ 2,546,088          | \$ 13,161,187        | \$ (10,087,527)                     | \$ 481,436                                   | \$ 12,181,242 |
| Net income   |              |           |                                  |                       | 1,208,604            |                                     |  | 1,208,604     |
| Adjustment to statutory<br>reserves                              |              |           |                                  | 912,237               | (912,237)            |                                     |  |               |
| Dividend declared  |              |           |                                  |                       | (13,392,000)         |                                     |  | (13,392,000)  |
| Foreign currency translation<br>gain                             |              |           |                                  |                       |                      |                                     | 2,154  | 2,154         |
| BALANCE, December 31,<br>2005                                    | 33,500       | \$ 33,500 | \$ 6,046,558                     | \$ 3,458,325          | \$ 65,554            | \$ (10,087,527)                     | \$ 483,590                                   | \$            |
| Net income   |              |           |                                  |                       | 7,349,361            |                                     |  | 7,349,361     |
| Investment in Sureland<br>Industrial Fire Equipment<br>Co., Ltd. |              |           | 165,000                          |                       |                      |                                     |  | 165,000       |
| Foreign currency translation<br>gain                             |              |           |                                  |                       |                      |                                     | 330,945                                      | 330,945       |
| Options issued to employees                                      |              |           | 553,000                          |                       |                      |                                     |  | 553,000       |
| BALANCE, September 30,<br>2006 (unaudited)                       | 33,500       | \$ 33,500 | \$ 6,764,558                     | \$ 3,458,325          | \$ 7,414,915         | \$ (10,087,527)                     | \$ 814,535                                   | \$ 8,398,306  |

The accompanying notes are an integral part of this statement.



**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

**(Unaudited)**

|   | 2006         | 2005         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |              |              |
| Net income  | \$ 7,349,361 | \$ 6,063,530 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |              |              |
| Minority Interest   |              | 111,662      |
| Depreciation  | 406,387      | 385,356      |
| Amortization  | 9,734        | 9,518        |
| Compensation expense for options issued to employees                                    | 553,000      |              |
| (Increase) decrease in assets:  |              |              |
| Accounts receivable   | (1,930,261)  | (1,706,672)  |
| Notes receivable  | 624,138      | (1,129,973)  |
| Other receivables   | (199,443)    | (1,185,656)  |
| Inventories   | (1,850,652)  | (549,336)    |
| Costs and estimated earnings in excess of billings                                      | (132,048)    | (3,168,003)  |
| Employee advances   | (482,133)    | (1,595,450)  |
| Prepayments and deferred expenses   | (751,797)    | (895,193)    |
| Increase (decrease) in liabilities:   |              |              |
| Accounts payable  | 1,419,996    | 946,560      |
| Customer deposits   | 1,599,483    | 2,148,740    |
| Other payables  | (72,300)     | (1,770)      |
| Accrued liabilities   | 1,789,923    | (90,204)     |
| Taxes payable   | 34,945       | (28,195)     |
| Net cash provided by (used in) operating activities                                     | 8,368,333    | (685,086)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |              |              |
| Cash paid for long term investment  | (310,008)    |              |
| Additions to equipment  | (202,732)    | (333,559)    |
| Additions to construction in progress   | (235,188)    |              |
| Cash proceeds from sale of equipment  | 16,405       |              |
| Net cash used in investing activities   | (731,523)    | (333,559)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |              |              |
| (Increase) decrease in restricted cash  | (220,605)    | 737,430      |
| Dividend distributions to shareholders  | (7,488,000)  |              |
| Dividend distributions to minority interest shareholder                                 | (348,040)    |              |
| Cash proceeds from note payables  | 2,496,000    |              |
| Cash payments on note payables  | (2,532,000)  |              |
| Cash proceeds from increase in paid-in capital  | 165,000      |              |
| Net cash (used in) provided by financing activities                                     | 7,927,645    | 737,430      |
| EFFECTS OF EXCHANGE RATE CHANGE IN CASH   | 108,216      | 503,930      |

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

|   |              |              |
|---|--------------|--------------|
| DECREASE IN CASH  | (182,619)    | 222,715      |
| CASH, beginning of year                                 | 2,357,399    | 5,626,498    |
| CASH, end of year                                       | \$ 2,174,780 | \$ 5,849,213 |
| Non-cash transactions:                                  |              |              |
| Long term investment acquired through other payable     | \$ 187,578   | \$           |
| Minority interest shares acquired through other payable | \$ 78,119    | \$           |

The accompanying notes are an integral part of this statement.

F-33

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 1 Background**

China Fire Protection Group Inc. (the Company) was incorporated in the British Virgin Islands as an international business company on June 2, 2006. The Company, through its subsidiaries, is engaged in the design, development, manufacturing and sales of fire protection products and services for industrial customers in China.

On June 19, 2006, the Company entered a sales and purchase agreement with the existing five shareholders (Original Shareholders) of Sureland Industrial Fire Safety Co., Ltd. (Sureland Industrial) which agreed to transfer their 100% ownership in Sureland Industrial to the Company. The total purchase consideration was \$10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. On July 18, 2006, this transfer was approved by the Beijing Bureau of Commerce, and the registration was completed with the Beijing State Administration for Industry and Commerce of the People's Republic of China, (PRC). As a result of this transfer, the Company became the 100% shareholder of Sureland Industrial. In accordance with laws governing foreign acquisitions of a Chinese registered company, the transfer of \$10,087,527 is required to be made within 1 year from the date of issuance of the business license.

During June and July 2006, the Company issued 33,500 shares of common stock to the Original Shareholders in consideration of a promissory note receivable totaling \$10,087,527 and the total number of shares outstanding in the Company is 33,500. As a result of this transaction, the Original Shareholders exercised control over the Company.

The purchase of Sureland Industrial and the issuance of the Company's common stock has been accounted for as a reverse acquisition as a recapitalization under common control. The assets and liabilities transferred have been accounted for at historical cost. The consolidated financial statements have been presented as if the acquisition of the subsidiary occurred at the beginning of 2004.

F-34

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 1 Background, (continued)**

**Sureland Industrial Fire Safety Co., Ltd. ( Sureland Industrial )** was established as a Sino-foreign equity joint venture in Beijing, PRC on February 22, 1995 with a registered capital of \$242,000 (RMB 2,000,000). Sureland Industrial and its subsidiaries in China principally engage in the design, development, manufacturing and sale of fire protection products and services for industrial customers in China.

In October 1997, the registered capital of Sureland Industrial was increased and revised from \$242,000 (RMB 2,000,000) to \$1,500,000 through the additional capital injection by the respective joint venture partners.

In July 1999, the registered capital of Sureland Industrial was further increased to \$2,000,000 (RMB 16,600,000) through the additional contributions from the respective joint venture partners.

In November 2000, with the foreign shareholder transferring all of its ownership in Sureland Industrial to certain PRC nationals and upon the approval of the Beijing Foreign Economic and Trade Commission, Sureland Industrial was converted from a Sino-foreign equity joint venture into a domestic limited liability company.

In December 2001, pursuant to a shareholders' resolution, the registered capital of Sureland Industrial was increased from \$2,008,600 (RMB 16,600,000) to \$2,510,750 (RMB 20,750,000), the increased portion was fully subscribed and paid by a PRC domestic company in cash of \$1,089,000 (RMB 9,000,000).

On April 11, 2002, the Beijing People's Government Economic System Restructuring Office approved the conversion of Sureland Industrial from a limited liability company to a joint stock company with limited liability, by converting at the ratio of 1 to 1, based upon the audited net assets of Sureland Industrial of \$6,050,000 (RMB 50,000,000) as of December 31, 2001, determined in accordance with PRC accounting principles and regulations, into the registered capital of Sureland Industrial. At its establishment on April 28, 2002, the registered capital of Sureland Industrial was \$6,050,000 (RMB 50,000,000) divided into 50,000,000 domestic shares of RMB 1.00 each.

On April 3, 2006, Sureland Industrial signed a sales and purchase agreement with Beijing Xin Da Bei Technology Company Limited to purchase the 5% ownership of Sureland Creation, based on the net asset value of Sureland Creation as of December 31, 2005. The transaction was completed on May 22, 2006, and Sureland Industrial now owns 100% of all its subsidiaries.

On June 12, 2006, the Beijing Administration for Industry and Commerce approved the conversion of Sureland Industrial from a joint stock company to a limited liability company. The registered capital remains unchanged at RMB 50,000,000.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 1 Background, (continued)**

**Beijing Sureland Creation Fire Prevention Technology Co., Ltd. ( Sureland Creation )** was a subsidiary established in the PRC as a limited liability company on July 12, 2002. Upon the establishment of Sureland Creation, 95% and 5% of its registered capital were contributed, in cash, by Sureland Industrial and Mr. Zhao Shuang Rui, a non-executive director of Sureland Industrial, respectively. On November 29, 2002, Mr. Zhao Shuang Rui transferred all his equity interests in Sureland Creation to Beijing Xin Da Bei Technology Company Limited. On May 22, 2006, Beijing Xin Da Bei Technology Company Limited transferred all the equity interest in Sureland Creation to Sureland Industrial. From May 22, 2006 onwards, Sureland Industrial owns 100% of equity in Sureland Creation and all subsidiaries of Sureland Industrial.

**Beijing Zhong Xiao Fire Safety Technology Co., Ltd. ( Beijing Zhong Xiao )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on March 18, 2003. Upon its establishment, 80% and 20% of its registered capital were contributed by Sureland Industrial, partly in cash and partly in equipment and Sureland Creation in cash, respectively. The equipment contributed by Sureland Industrial consisted of certain machinery and office equipment with aggregate amount of approximately \$145,200 (RMB1.2 million), being then the total carrying values of such assets in Sureland Industrial's books.

**Beijing Ju An Construction Fire Safety Technology Co., Ltd. ( Beijing Ju An )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on May 22, 2003. Upon its establishment, 60% and 40% of its registered capital were contributed, in cash, by Sureland Industrial and Sureland Creation, respectively.

**Beijing Hua An Times Fire Safety Technology Co., Ltd. ( Beijing Hua An )** was a subsidiary of Sureland Industrial established in the PRC as a limited liability company on September 22, 2005 upon its establishment, 80% and 20% of its registered capital were contributed, in cash, by Sureland Industrial and Sureland Creation, respectively.

**Sureland Industrial Fire Equipment Co., Ltd. ( Sureland Equipment )** was established as a Sino-foreign equity joint venture in Beijing, the People's Republic of China (the PRC) on April 12, 2006 with a registered capital \$660,000. Upon its establishment, 75% and 25% of its registered capital were contributed, in cash, by Sureland Industrial and Vyle Investment Inc., respectively.

On June 22, 2006, the Company signed a sales and purchase agreement with the existing two shareholders, Sureland Industrial and Vyle Investment Inc., to become 100% shareholder of Sureland Equipment. The purchase price was based on the registered capital of Sureland Equipment. On August 4, 2006, this transaction was approved by the Beijing Bureau of Commerce, and the registration with the Beijing State Administration for Industry and Commerce of the People's Republic of China, ( PRC ) was completed on August 15, 2006.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 1 Background, (continued)**

On July 27 and 31, 2006, the Company issued 31,500 shares of common stock to the Original Shareholders in addition to the initial 2,000 shares owned by the Original Shareholders. As a result of this transaction, the Original Shareholders exercised control over the Company.

**Note 2 Summary of significant accounting policies**

**The reporting entity**

The consolidated financial statements of China Fire Protection Group Inc. and Subsidiaries (referred to as the Company) reflect of 100% owned subsidiary, Sureland Industrial, 100% owned subsidiary, Sureland Creation, 100% owned subsidiary, Beijing Fire Safety, 100% owned subsidiary, Beijing Ju An Construction, 100% owned subsidiary, Beijing Hua An, and 100% owned subsidiary, Sureland Equipment. The consolidated financial statements have been presented as if the acquisition of the subsidiaries occurred at the beginning of 2004 due to the common management and ownership. The consolidated financial statements generally reflect only the activities of all six subsidiaries at their historical cost since the parent company; China Fire Protection Group had no activities for the periods ended September 30, 2006, and 2005.

**Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of China Fire Protection Group and its subsidiaries (referred to as the Company). All material intercompany transactions and balances have been eliminated in the consolidation.

Minority interests at December 31, 2005 represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**Balance sheet classifications**

The Company includes in current assets accounts receivable under system contracting projects (principally retentions) that may extend beyond one year. A one-year time period is used as the basis for classifying all other current assets and liabilities.

**Shipping and handling**

Costs related to shipping and handling are included in cost of revenue.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Revenue recognition**

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

1. Revenue from system contracting projects comprises the agreed contract amount and appropriate amounts from change orders, claims and incentive payments. Contract costs incurred comprise direct material, direct labor and an appropriate proportion of variable and fixed construction overhead. When the outcome of a project can be estimated reliably, revenue from the contract is recognized on the percentage of completion method, which is based on the proportion of contract costs incurred to date compared to the estimated total cost of the relevant contract. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract consumers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

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

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

For the nine months ended September 30, 2006, revenue from system contracting projects and other, and revenue from product sales was \$18,178,623 and \$5,366,832, respectively.

For the nine months ended September 30, 2005, revenue from system contracting projects and other, and revenue from product sales was \$8,245,830 and \$7,010,991, respectively.

The Company reviews SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* and concludes that the Company has been operating in one operating segment.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)****Foreign currency translation**

The reporting currency of the Company is the US dollar. The Company uses their local currency, Renminbi (RMB), as their functional currency. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of shareholders' equity and amounted to \$814,535 and \$481,436 as of September 30, 2006 and 2005, respectively. The balance sheet amounts with the exception of equity at September 30, 2006 were translated at 7.89 RMB to \$1.00 USD as compared to 8.06 RMB at December 31, 2005. The equity accounts were stated at their historical rate. The average translation rate of 8.00 RMB to \$1.00 USD for the nine months ended September 30, 2006 was applied to income statement accounts.

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

**Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with 5% residual value. The depreciation expense for the nine months ended September 30, 2006 and 2005 amounted to \$406,387 and \$385,356 respectively.

Estimated useful lives of the assets are as follows:

|                           | <b>Useful Life</b> |
|---------------------------|--------------------|
| Buildings and improvement | 40 years           |
| Transportation equipment  | 5 years            |
| Machinery                 | 10 years           |
| Office equipment          | 5 years            |
| Furniture                 | 5 years            |

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



**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)****Plant and equipment, (continued)**

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

Long-term assets of the Company are reviewed annually as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of September 30, 2006, the Company expects these assets to be fully recoverable.

Plant and equipment consist of the following at:

|                               | <b>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|-------------------------------|-------------------------------|------------------------------|
| Buildings and improvement     | \$ 1,932,599                  | \$ 1,872,866                 |
| Transportation equipment      | 1,833,240                     | 1,925,755                    |
| Machinery                     | 571,082                       | 559,150                      |
| Office equipment              | 919,289                       | 863,334                      |
| Furniture                     | 72,351                        | 58,099                       |
| Fixed assets disposing        | 43,678                        |                              |
| Construction in progress      | 384,627                       | 146,370                      |
| Totals                        | 5,756,866                     | 5,425,574                    |
| Less accumulated depreciation | 2,105,168                     | 1,810,200                    |
| Totals                        | \$ 3,651,698                  | \$ 3,615,374                 |

**Use of estimates**

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

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)**Use of estimates. (continued)

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

Cash and concentration of risk

Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the People's Republic of China. Total cash (including restricted cash balances) in these banks at September 30, 2006 and December 31, 2005, amounted to \$3,962,660 and \$3,874,629, respectively of which no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

Restricted cash

Restricted cash represents cash required to be deposited to bank subject to withdrawal restrictions by its system contracting projects and product sales customers to guarantee its contracts will be performed. The deposit cannot be drawn or transferred by the Company until the restriction period expired. The amounts are \$1,787,880 and \$1,535,088 as of September 30, 2006 and December 31, 2005, respectively.

|                             | <b>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|-----------------------------|-------------------------------|------------------------------|
| Restricted Cash             |                               |                              |
| Product sales               | \$ 911,238                    | \$ 1,121,591                 |
| System contracting projects | 876,642                       | 413,497                      |
| Total Restricted Cash       | \$ 1,787,880                  | \$ 1,535,088                 |

F-41

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)****Inventory**

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

|                  | <b>September 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|------------------|-------------------------------|------------------------------|
| Raw materials    | \$ 3,143,136                  | \$ 376,795                   |
| Finished goods   | 1,067,638                     | 1,943,152                    |
| Work in progress |                               | 79,965                       |
| Consumables      | 100,431                       | 10,108                       |
| <b>Totals</b>    | <b>\$ 4,311,205</b>           | <b>\$ 2,410,020</b>          |

Raw materials consist primarily of materials used in production. Finished goods consist primarily of equipment used in project contracts. The costs of finished goods include direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling costs are also included in the cost of inventory. The Company reviews its inventory annually for possible obsolete goods or to determine if any reserves are necessary for potential obsolescence. As of September 30, 2006 and December 31, 2005, the Company determined that no reserves are necessary.

**Accounts receivable**

Accounts receivable represents amounts due from customers for products sales, maintenance services and system contracting projects. The credit term is generally for a period of three months for major customers. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Reserves are recorded when collection of amounts due are in doubt.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)****Accounts receivable, (continued)**

Accounts receivable consists of the following as of September 30, 2006 and December 31, 2005:

|                                  | <b>September 30,<br/>2006</b> | <b>December 31<br/>2005</b> |
|----------------------------------|-------------------------------|-----------------------------|
| Accounts receivable:             |                               |                             |
| Product sales                    | \$ 6,042,624                  | \$ 4,724,947                |
| Maintenance services             | 425,211                       | 358,392                     |
| System contracting projects      | 3,945,968                     | 3,133,221                   |
| <b>Total accounts receivable</b> | <b>10,413,803</b>             | <b>8,216,560</b>            |
| Allowance for bad debts          | (635,098)                     | (529,300)                   |
| <b>Accounts receivable, net</b>  | <b>\$ 9,778,705</b>           | <b>\$ 7,687,260</b>         |

**Costs and estimated earnings in excess of billings**

|   | <b>September 30,<br/>2006</b> | <b>December 31<br/>2005</b> |
|---|-------------------------------|-----------------------------|
| Contracts costs incurred plus recognized profits less recognized losses to date | \$ 35,298,161                 | \$ 19,942,914               |
| Less progress billings  | 32,484,999                    | 17,316,862                  |
| <b>Costs and estimated earnings in excess of billings</b>                       | <b>\$ 2,813,162</b>           | <b>\$ 2,626,052</b>         |

At September 30, 2006 and December 31, 2005, retentions held by customers of system contracting projects included in the Company's accounts receivable amounted to \$1,045,616 and \$656,057, respectively. These balances represent portions of billings made by the Company but held for payment by the customer pending satisfactory completion of the project. Retainage is generally collected within one year of the completion.

At September 30, 2006 and December 31, 2005, advances received from customers for contract works relating to system contracting projects included in the Company's customer deposits amounted to \$1,525,847 and \$838,123, respectively.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Financial instruments**

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

**Intangible assets**

All land in the People's Republic of China is owned by the government and cannot be sold to any individual or company. However, the government grants the user land use rights to use the land. The Company acquired land use rights in 1999 for a total amount of \$635,757. The land use rights expire in 2049. The costs of these rights are being amortized over fifty years using the straight-line method. As of September 30, 2006 and December 31, 2005, accumulated amortization amounted to \$110,606 and \$96,289, respectively.

Intangible assets of the Company are reviewed annually as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2005, the Company expects these assets to be fully recoverable.

Total amortization expense for the nine months ended September 30, 2006 and 2005 amounted to \$9,734 and \$9,518, respectively.

**Income taxes**

The Company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consist of taxes currently due plus deferred taxes. There are no deferred tax amounts at September 30, 2006 and 2005.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Income taxes. (continued)**

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

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

In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

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

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

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

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

The Company's subsidiaries, Sureland Creation, Beijing Zhong Xiao, Beijing Ju An Construction, and Beijing Hua An, were established and registered in the New Technology Enterprise Development Zone, Beijing, PRC and are subject to the rate of 15% and have been certified by the relevant PRC authorities high technology enterprises. However pursuant to approval documents issued by the relevant tax bureau, all the subsidiaries have obtained the following additional tax benefits:



**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 2 Summary of significant accounting policies, (continued)****Income taxes. (continued)**

Sureland Creation was granted income tax exempt in the period between July 12, 2002 and December 31, 2004 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2005 to December 31, 2007.

Beijing Zhong Xiao was granted income tax exempt in the period between March 18, 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

Beijing Ju An Construction was granted income tax exempt in the period between May 2003 and December 31, 2005 and is entitled to a 50% deduction of the special income tax rate of 15% which is a rate of 7.5% from January 1, 2006 to December 31, 2008.

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

The provision for income taxes for the nine months ended September 30 consisted of the following:

|   | <b>2006</b>      | <b>2005</b>       |
|---|------------------|-------------------|
| Provision for China Income Tax          | \$ 35,619        | \$ 92,333         |
| Provision for China Local Tax           | 3,562            | 9,233             |
| <b>Total provision for income taxes</b> | <b>\$ 39,181</b> | <b>\$ 101,566</b> |

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

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
| U.S. Statutory rates                    | 34.0%       | 34.0%       |
| Foreign income not recognized in USA    | (34.0)      | (34.0)      |
| China income taxes                      | 1.0         | 1.1         |
| <b>Total provision for income taxes</b> | <b>1.0%</b> | <b>1.1%</b> |

The estimated tax savings for the nine months ended September 30, 2006 and 2005 amounted to \$1,538,088 and \$1,149,668, respectively.



Table of Contents

## CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(Unaudited)

**Note 2 Summary of significant accounting policies, (continued)**Value Added Tax

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

Taxes payable

Taxes payable as of September 30, 2006 and December 31, 2005 consisted of the following:

|                            | September 30,<br>2006 | December 31,<br>2005 |
|----------------------------|-----------------------|----------------------|
| VAT taxes payable (credit) | \$ (84,298)           | \$ (25,025)          |
| Income taxes payable       | 18,573                | 121,301              |
| Sales taxes                | 625,443               | 445,889              |
| Other taxes payable        | 63,079                | 61,846               |
| <b>Total</b>               | <b>\$ 622,797</b>     | <b>\$ 604,011</b>    |

Stock based compensation

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

Recently issued accounting pronouncements

In March 2005, the FASB published FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, which clarifies that the term, conditional asset retirement obligations, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements. (continued)**

the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of the Company's fiscal 2006. The adoption of this Interpretation is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154). SFAS No. 154 replaces APB No. 20 (APB 20) and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. APB 20 previously in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS No. 154 enhances the consistency of financial information between periods. SFAS No. 154 will be effective beginning with the Company's first quarter of fiscal year 2006. The Company adoption of SFAS No. 154 did not have a material impact on its results of operations, financial position or cash flows as there were no transactions subject to the provision of FASB No. 154 that occurred during the period.

In June 2005, the EITF reached a consensus on Issue No. 05-06, "Determining the Amortization Period for Leasehold Improvements" (EITF 05-06). EITF 05-06 provides guidance for determining the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease, collectively referred to as subsequently acquired leasehold improvements. EITF 05-06 provides that the amortization period used for the subsequently acquired leasehold improvements to be the lesser of (a) the subsequently acquired leasehold improvements' useful lives, or (b) a period that reflects renewals that are reasonably assured upon the acquisition or the purchase. EITF 05-06 is effective on a prospective basis for subsequently acquired leasehold improvements purchased or acquired in periods beginning after the date of the FASB's ratification, which was on June 29, 2005. The Company adoption of EITF 05-06 did not have a material impact on its consolidated results of operations.

F-48

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements. (continued)**

In July 2005, the Financial Accounting Standards Board (FASB) issued an Exposure Draft of a proposed Interpretation Accounting for Uncertain Tax Positions an interpretation of FASB Statement No. 109. Under the proposed Interpretation, a company would recognize in its financial statements its best estimate of the benefit of a tax position, only if the tax position is considered probable of being sustained on audit based solely on the technical merits of the tax position. In evaluating whether the probable recognition threshold has been met, the proposed Interpretation would require the presumption that the tax position will be evaluated during an audit by taxing authorities. The proposed Interpretation would be effective as of the end of the first fiscal year ending after December 15, 2005, with a cumulative effect of a change in accounting principle to be recorded upon the initial adoption. The proposed Interpretation would apply to all tax positions and only benefits from tax positions that meet the probable recognition threshold at or after the effective date would be recognized. The Company is currently analyzing the proposed Interpretation and has not determined its potential impact on our Consolidated Financial Statements. While we cannot predict with certainty the rules in the final Interpretation, there is risk that the final Interpretation could result in a cumulative effect charge to earnings upon adoption, increases in future effective tax rates, and/or increases in future interperiod effective tax rate volatility.

In October 2005, FASB Staff Position (FSB) FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" was issued. This FSP concluded that rental costs associated with ground or building operating leases that are incurred during a construction period be expensed. The guidance in the FSP is required to be applied to the first reporting period beginning after December 15, 2005. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments ( FAS 155 ), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( FAS 133 ) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ( FAS 140 ). FAS 155 provides guidance to simplify the accounting for certain hybrid instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, as well as, clarifies that beneficial interests in securitized financial assets are subject to FAS 133. In addition, FAS 155 eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold under FAS 140. FAS 155 is effective for all financial instruments acquired, issued or subject to a new basis occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material effect on the Company's financial position or results of operations.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements. (continued)**

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets ( FAS 156 ), which amends SFAS No. 140. FAS 156 specifically provides guidance addressing the recognition and measurement of separately recognized servicing assets and liabilities, common with mortgage securitization activities, and provides an approach to simplify efforts to obtain hedge accounting treatment. FAS 156 is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, with early adoption being permitted. The adoption of SFAS No. 156 is not expected to have a material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The requirements of FIN 48 are effective for our fiscal year beginning January 1, 2007. The adoption of this interpretation is not expected to 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 addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 provides a common definition of fair value to be used throughout GAAP which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS No. 157 will be effective for an entity's financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect SFAS No. 157 will have on its consolidated financial position, liquidity, or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)". One objective of this standard is to make it easier for investors, employees, retirees and other parties to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. SFAS No. 158 requires employers to fully recognize in their financial statements the obligations associated with single employer defined benefit pension plans, retiree healthcare plans, and other postretirement plans. SFAS No. 158 requires an employer to

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 2 Summary of significant accounting policies, (continued)**

**Recently issued accounting pronouncements. (continued)**

fully recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position, with limited exceptions. SFAS No. 158 requires an entity to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87. This Statement requires an entity to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The Company is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures for fiscal years ending after December 15, 2006.

**Note 3 Earnings per share**

The Company adopted Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128). SFAS 128 requires the presentation of earnings per share (EPS) as Basic EPS and Diluted EPS. There are no differences between Basic and Diluted EPS for the nine months ended September 30, 2006 and 2005, because the exercise price of the options outstanding, granted on July 1, 2006, were below market price of the shares and therefore were anti-dilutive. The weighted average number of shares used to calculate EPS have been retroactively restated to reflect the reverse acquisition and earnings per share for the nine months ended September 30, 2006 and 2005.

**Note 4 Supplemental disclosure of cash flow information**

Interest paid amounted to \$79,025 and \$0 for the nine months ended September 30, 2006 and 2005 respectively.

Income tax payments amounted to \$137,439 and \$96,013 for the nine months ended September 30, 2006 and 2005 respectively.

**Note 5 Notes receivable**

Notes receivable represents trade accounts receivable due from various customers where the customers' bank has guaranteed the payment of the receivable. This amount is non-interest bearing and is normally paid within three to six months. The Company has the ability to submit their request for payment to the customer's bank earlier than the scheduled payment date. However, the Company will incur an interest charge and a processing fee when they submit the payment request early. The Company's notes receivable is in the amount of \$648,192 and \$1,246,200 as of September 30, 2006 and December 31, 2005, respectively.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 6 Prepayments and deferred expenses**

Prepayments and deferred expenses are monies deposited with or advanced to subcontractors to perform services on System Contracting Projects. Some subcontractors require a certain amount of money to be deposited as a guarantee payment in order for them start performing the services. Prepayments and deferred expenses also include monies deposited or advanced to vendors on future inventory purchases. Some of the Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive their purchases on a timely basis. The total outstanding amount was \$2,506,870 and \$1,704,219 as of September 30, 2006 and December 31, 2005, respectively.

**Note 7 Customer deposits**

Customer deposits represent amounts advanced by customers on product orders, maintenance services deposits and system contracting projects deposits. The product or service normally is shipped or performed within six months after receipt of the advance payment and the related sale is recognized in accordance with the Company's revenue recognition policy. As of September 30, 2006 and December 31, 2005, customer deposits amounted to \$3,342,500 and \$1,707,220, respectively.

**Note 8 Related party transactions and contingencies**

In June 2006, the Company entered a sales and purchase agreement with the existing five shareholders who agreed to transfer their 100% ownership in Sureland Industrial to the Company. The total purchase consideration was \$10,087,527 which was determined based upon the net asset value of Sureland Industrial as of December 31, 2005. See Note 1 for detail information. As a result of this transaction, the Original Shareholders exercised control over the Company. In accordance with laws governing foreign acquisitions of a Chinese registered company, the total transfer consideration of \$10,087,527 is required to be made within 1 year from July 19, 2006, the date of issuance of the Company's business license.

**Note 9 Major customers and suppliers**

The Company has five major customers which represent approximately 31% and 29% of the Company's total sales for the nine months ended September 30, 2006 and 2005, respectively.

For the nine months ended September 30, 2006 and 2005, the Company purchases approximately 30% and 38%, respectively, of their raw materials from five major suppliers.

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 10 Minority interest**

At December 31, 2005, minority interest represents the outside shareholders 5% interest in Sureland Creation, 1% interest in Beijing Zhong Xiao, 2% interest in Beijing Ju An and 2% interest in Beijing Hua An. The Company acquired the minority interest during 2006.

**Note 11 Other income and expenses, net**

Other income and expense for the nine months ended September 30 consists of the following:

|                            | <b>2006</b>    | <b>2005</b>    |
|----------------------------|----------------|----------------|
| Interest income (expense)  | \$ (75,475)    | \$ 7,409       |
| Other miscellaneous income | 597,231        | 182,437        |
| Other nonoperating income  | 19,646         | 6              |
| <br>Total other income     | <br>\$ 541,402 | <br>\$ 189,852 |

Other miscellaneous income represents the valued-added tax and sales tax refunds from the local tax authority in PRC China.

**Note 12 Retirement plan**

The Company and its subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute 12% of its payroll costs to the central pension scheme in 2006 and 2005 and has no further obligations for post-retirement benefits. The contributions are charged to the income statement of the Company as they become payable in accordance with the rules of the scheme.

The aggregate contributions of the Company to retirement benefit schemes amounted to \$36,512 and \$39,110 for the nine months ended September 30, 2006 and 2005, respectively.

**Note 13 Intercompany and minority interest distributions**

On December 31, 2005, the board of directors of Sureland Creation approved and declared dividends of \$2,728,000 (RMB 22,000,000).

On December 31, 2005, the board of directors of Beijing Zhong Xiao approved and declared dividends of \$2,480,000 (RMB 20,000,000).

**Table of Contents****CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****Note 13 Intercompany and minority interest distributions, (continued)**

On December 31, 2005, the board of directors of Beijing Ju An approved and declared dividends of \$1,984,000 (RMB 16,000,000).

The following table summarizes the dividend distributions in direct proportion to their ownership percentages:

| <b>Date</b>                                 |     | <b>INTER-<br/>COMPANY</b> | <b>MINORITY<br/>SHAREHOLDER</b> | <b>TOTALS</b> |
|---|-----|---------------------------|---------------------------------|---------------|
| December 31, 2004 Balance                   | RMB | 65,899,285                | 1,700,000                       | 67,599,285    |
| December 31, 2004 Balance                   | USD | \$ 7,973,813              | \$ 205,700                      | \$ 8,179,513  |
| <b>Year Ended December 31, 2005</b>         |     |                           |                                 |               |
| Amount declared                             | RMB | 56,900,000                | 1,100,000                       | 58,000,000    |
| Amount paid                                 | RMB |                           |                                 |               |
| December 31, 2005 Balance                   | RMB | 122,799,285               | 2,800,000                       | 125,599,285   |
| December 31, 2005 Balance                   | USD | 15,227,111                | 347,200                         | 15,574,311    |
| <b>Nine Months Ended September 30, 2006</b> |     |                           |                                 |               |
| Amount declared                             | RMB |                           |                                 |               |
| Amount paid                                 | RMB |                           | 2,800,000                       | 2,800,000     |
| September 30, 2006 Balance                  | RMB | 122,799,285               |                                 | 122,799,285   |
| September 30, 2006 Balance                  | USD | \$ 15,546,389             | \$                              | \$ 15,546,389 |

The intercompany dividend payable amounted to \$15,546,389 and \$15,227,111 at September 30, 2006 and December 31, 2005, respectively, and has been eliminated in the consolidation.

**Note 14 Dividends and Statutory reserves**

On December 21, 2005 and December 31, 2005, the board of directors of Sureland Industrial approved and declared dividends of \$12,400,000 (RMB 100,000,000) and \$992,000 (RMB 8,000,000), respectively.



Table of Contents

## CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(Unaudited)

**Note 14 Dividends and Statutory reserves, (continued)**

The dividends paid or declared by the Company to its Original Shareholders in respect of each of the relevant periods were as follows:

|  | Nine Months Ended<br>September 30 | Year Ended<br>December 31 |
|--|-----------------------------------|---------------------------|
|  | 2006                              | 2005                      |
| Dividend payable to original shareholders, beginning       | \$ 8,399,750                      | \$ 1,300,750              |
| Dividend declared to original shareholders                 |                                   | 13,392,000                |
| Dividend paid to original shareholders                     | (7,488,000)                       | (6,293,000)               |
| Dividend payable to original shareholders, ending          | 911,750                           | 8,399,750                 |
| Dividend payable to minority interest shareholders, ending |                                   | 347,200                   |
| Foreign currency translation loss                          | 101,050                           | 32,250                    |
| <b>Total dividend payable</b>                              | <b>\$ 1,012,800</b>               | <b>\$ 8,779,200</b>       |

The payment of future dividends will be determined and proposed by the Company's board of directors. The payment of dividends will depend upon, among other things, the future earnings, capital requirements and financial condition and general business conditions of the Company.

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

Surplus reserve fund

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

The transfer to this reserve must be made before distribution of any dividend to shareholders. For the nine months ended September 30, 2006 and the year ended December 31, 2005 the Company transferred \$0 and \$608,158, respectively, representing 10% of the year's net income determined in accordance with PRC accounting rules and regulations, to this reserve. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 14 Dividends and Statutory reserves, (continued)**

**Common welfare fund**

Through 2005, the Company was required to transfer 5% to 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to the statutory common welfare fund. For the year ended December 31, 2005, the Company transferred \$304,079 representing 5% of the year's net income determined in accordance with PRC accounting rules and regulations, to this reserve. Starting on January 1, 2006, the PRC accounting rules and regulations no longer required the company to transfer 5% to 10% of its net income to the statutory common welfare fund. The balance in the common welfare fund at December 31, 2005 was transferred to surplus reserve fund.

**Enterprise fund**

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required and the company did not make any contribution to this fund during 2005.

**Note 15 Commitments**

**Operating lease commitments**

The Company's office lease is under a three year term expiring in January 2008. It is cancelable with three months prior notice. At September 30, 2006, total future minimum lease payments under an operating lease were as follows:

| <b>September 30</b> | <b>Amount</b> |
|---------------------|---------------|
| 2007                | 158,478       |
| 2008                | 13,207        |
| Thereafter          |               |

Total rent expense for the nine months ended September 30, 2006 and 2005 amounted to \$104,569 and \$105,862, respectively.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 16 Options issued to employees**

On July 1, 2006, Sureland Industrial Fire Protection Limited issued 750,000 options to its employees. Fifty percent of the options vested immediately, with the balance vesting evenly each quarter over the next two years.

The Company has used the Cox-Ross-Rubinstein binomial model to value the Warrants and the Additional Investment Rights, at the time they were issued, based on the stated exercise prices and expiration dates of the instruments and using a risk-free rate of return appropriate to the contractual life of the instruments. The risk-free rates used are based on Treasury Constant Maturity rates, published by the U.S. Federal Reserve, applicable to the expected life of the Warrants and other instruments. Those valuations are included in a separate spreadsheet.

In valuing the various securities that were issued to the investors, there are two subjective elements that affect the valuations

1. The estimated volatility of the Company's common stock, and
2. The estimate of what percentage of the escrowed shares, if any, the investors will receive.

Because the Company does not have a history of employee stock options, the estimated life is based on one half of the sum of the vesting period and the contractual life of the option. This is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date.

Absent any significant change in the business between July and October 2006, the fair value used to value the employee options should be comparable to that determined as of October 27. Based on an assumed fair value for the October 27 transaction of \$2.26 and a discount of 30%, the employee options were valued based on an estimated market price of \$1.58. At that market price, the 750,000 employee options had a fair value of approximately \$834,000.

Because 50% of the options vested immediately, the related compensation expense was recognized as the options vest, rather than on a straight-line basis over the total vesting period, as the amount recognized at any point in time must be at least equal to the portion vested. Based on assumed total compensation expense of \$834,000, the expense recognized for the period ended September 30, 2006 was \$553,000.

**Table of Contents**

**CHINA FIRE PROTECTION GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(Unaudited)**

**Note 17 Subsequent event**

**Reverse acquisition**

On October 27, 2006, the Company entered into a Securities Exchange Agreement (the Agreement) with Unipro Financial Services, Inc., a Florida corporation (Unipro). Based on the agreement, each Company Shareholder agreed to sell, assign, transfer and deliver to Unipro all of the shares of the Company's ordinary shares of capital stock, par value US \$0.01 each (the Company Shares), in exchange for the issuance by Unipro to each such Company Shareholders a pro rata share of 701,538.46 Unipro shares of Series A Convertible Preferred Stock, no par value (Unipro Preferred). Each Company Shareholder's pro rata share of the Unipro Preferred was determined by multiplying 701,538.46 Unipro Preferred by a fraction, the numerator equaled the total number of Company Shares owned by the Company Shareholder at the Closing and the denominator was is the total number of Company Shares issued and outstanding at the Closing.

Prior to Closing, the Company had outstanding options to purchase Company shares. The options were converted into 750,000 options to purchase Unipro Common Stock, \$0.001 par value (Common Stock) on the same terms and conditions as the outstanding options. Fractional shares of Unipro Preferred were issued as necessary. For accounting purpose this transaction will be treated as a recapitalization of the Company where the Company is considered the accounting acquirer.

As a result of the reverse acquisition, the Company's financial statements presented as the continuing accounting entity of Unipro. Thus, the historical financial statements of the Company should retroactively reflect the historical financial statements of Unipro and the pro forma financial information of Unipro will not be presented in this statement.

F-58

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 24. Indemnification of Directors and Officers.**

(a) Articles of Incorporation. Our Articles of Incorporation provide that to the fullest extent permitted by the Florida Business Corporation Act as the same exists or may hereafter be amended, a director of our corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

*[(b) Bylaws. Our Bylaws provide that we may indemnify our directors, officers, employees and other agents to the fullest extent permitted under the Florida General Corporation Law. We have obtained liability insurance for our officers and directors.]*

*(c) Agreement. We have entered into separate indemnification agreements with each of our directors and officers. These agreements require us, among other things, to indemnify such persons against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from actions not taken in good faith or in a manner the indemnitee believed to be opposed to the best interests of our corporation), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.]*

**Item 25. Other Expenses of Issuance and Distribution.**

The following table sets forth estimated expenses we expect to incur in connection with the resale of the shares being registered. All such expenses are estimated except for the SEC registration fee.

|  |           |
|--|-----------|
| SEC registration fee                         | \$ 2,100  |
| Printing expenses                            | \$ 25,000 |
| Fees and expenses of counsel for the Company | \$ 25,000 |
| Fees and expenses of accountants for Company | \$ 25,000 |
| Miscellaneous                                | \$ 1,000  |
| *Total                                       | \$ 78,100 |

**Item 26. Recent Sales of Unregistered Securities.**

On October 27, 2006, the Company issued 701,538.46 shares of the Series A Convertible Preferred Stock in exchange for all of the issued and outstanding shares of China Fire. Upon the effective date of an amendment to the Articles of Incorporation amending Article 4 increasing the total number of authorized shares to 70,000,000 and increasing the number of authorized shares of Common Stock to 65,000,000 (the Mandatory Conversion Date), (i) all outstanding shares of Series A Convertible Preferred Stock shall be automatically converted into shares of Common Stock, at the Conversion Rate, (ii) such shares may not be reissued by the Corporation as shares of such series and (iii) all outstanding options and warrants to acquire Series A Convertible Preferred Stock shall be automatically converted into options and warrants to acquire shares of Common Stock, at the then effective Conversion Rate and the price per Share of Common Stock will be equal to product of \$105.625 and the fraction in which the numerator is 1 and the denominator is the Conversion Rate. The shares were issued in reliance on the exemption provided by Regulation S. The persons to whom the stock was issued are all Chinese citizens and residents.

**Table of Contents**

On October 27, 2006 and December 5, 2000, the Company issued shares under the SPA. Under the SPA, the Company sold (i) an aggregate of 2,461,677 shares of Common Stock at a purchase price of \$3.25 per share, (ii) Series A Warrants exercisable for five years to acquire an aggregate of 492,340 shares of Common Stock (subject to customary adjustments) at an exercise price of \$3.58 per share ( Series A Warrants ) and (iii) Series B Warrants exercisable for five years to acquire an aggregate of 492,340 shares of Common Stock (subject to customary adjustments) at an exercise price of \$4.88 per share ( Series B Warrants ). In connection with the SPA, the Company granted to H.C. Wainwright & Co., Inc. and its assigns warrants to purchase 184,626 at \$3.25 per share exercisable for five years. H.C. Wainwright & Co., Inc. acted as placement agent. The investors were accredited investors. The Company relied on the exemption set forth in Section 4(2) of the Securities Act.

**Item 27. Exhibits.**

**Exhibit  
Number**

- 2.1\* Securities Exchange Agreement, dated as of September 1, 2006, by and among the Company, China Fire Protection Group and Sureland, its subsidiary
- 2.2 Securities Purchase Agreement, dated as of October 27, 2006, by and among the Company, China Fire Protection Group and named Investors
- 3.1\*\* Restated Articles of Incorporation, filed with the state of Florida on October 18, 2006.
- 3.2\*\* Articles of Amendment to Articles of Incorporation & Designating Series A Convertible present Stock.
- 3.3\*\* By-Laws.
- 4.1\*\* Registration Rights Agreement dated October 27, 2006 between the Company and named Investors
- 4.2\*\* Registration Rights Agreement dated October 27, 2006 between the Company and named Shareholders
- 4.3\*\* Form of Series A Warrant to Purchase Shares of Common Stock of the Company.
- 4.4\*\* Form of Series B Warrant to Purchase Shares of Common Stock of the Company
- 4.5\*\* Escrow Agreement dated October 27, 2006 by and among the Company UNIPRO, H. C. Wainwright & Co., Inc., the Investor Representative, Gangjin Li, and Brian Li, and American Stock Transfer & Trust Company
- 4.6\*\* Form of H. C. Wainwright & Co., Inc. Warrant.
- 5.1 Opinion of Preston Gates Ellis, LLP
- 10.1\*\* Construction Contract between Anshan Iron & Steel Group Corp. and Sureland Industrial Fire Safety Co., Ltd. Dated October, 2006
- 10.2\*\* Contract between Maanshan Iron & Steel Co., Ltd and. and Sureland Industrial Fire Safety Co., Ltd.
- 10.3\*\* Contract between Wuhan Iron & Steel (Group) Corp. and Sureland Industrial Fire Safety Co., Ltd.
- 10.4\*\* Purchase Contract between Beijing Zhongshiweiye Technologies Co. Ltd.. and Sureland Industrial Fire Safety Co., Ltd. Dated June 13, 2005
- 10.5\*\* Contract between Hangzhou New Epoch Fire Protection Science & Technology Co., Ltd and Sureland Industrial Fire Safety Co., Ltd. Dated December 5, 2005
- 10.6\*\* Contract between Guangzhou Jinshengyang Technologies Co. Ltd. and Sureland Industrial Fire Safety Co., Ltd. Dated May 20, 2005
- 10.7\*\* Purchase and Sales Contract between Beijing Xinfangsheng Hardware Electric Products Co. Ltd. and Sureland Industrial Fire Safety Co., Ltd. Dated October, 200
- 10.8\*\* Purchase and Sales Contract between Sichuan Firefighting Machinery General Factory and Sureland Industrial Fire Safety Co., Ltd. Dated July 19, 2005

Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

10.9\*\*

Purchase and Sales Contract between Beijing Tianningyihe Pipeline System Equipments Co. Ltd. and Sureland Industrial Fire Safety Co., Ltd. Dated July 19, 2005

II-2

---

**Table of Contents**

**Exhibit  
Number**

|         |  |
|---------|--|
| 10.10** | Acceptance for Carriage Service Contract between Zhaijisong Express Co., LTD and Sureland Industrial Fire Safety Co., Ltd.                             |
| 10.11** | Cooperation Contract between Lianxin International Trade (Shanghai Waigaoqiao Free Trade Zone) Co., Ltd. and Sureland Industrial Fire Safety Co., Ltd. |
| 10.12** | Marketing Memorandum between Xi an Systemsensor Electronic Co., Ltd and Sureland Industrial Fire Safety Co., Ltd.                                      |
| 10.13** | OEM Cooperation Agreement between Xi an System Sensor Electronics, Ltd. and Sureland Industrial Fire Safety Co., Ltd. Dated may 26, 2004               |
| 10.14** | House Lease Contract between Beijing Bestpower Electrical Technology Ltd. and Sureland Industrial Fire Safety Co., Ltd. Dated December 1, 2004         |
| 10.15** | Stock Ownership Assignment Agreement   |
| 14.1*** | Officers and Directors Code of Ethics  |
| 23.1    | Consent of Preston Gates Ellis, LLP, filed as part of Exhibit 5.1  |
| 23.1    | Consent of Independent Registered Public Accounting Firm   |

---

\* Incorporated by reference from 8-K filed September 5, 2006 where it was filed as Exhibit 99.1

\*\* Incorporated by reference from 8-K filed on November 2, 2006 where the exhibits were the same number

\*\*\* Incorporated by reference from of Form 10QSB, filed with the Commission on May 24,2004 where it was filed as Exhibit 10.4



---

## **Table of Contents**

### **Item 28. Undertakings.**

(a) The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
  - i. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
  - ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.
  - iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided however, that:

A. Paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is on Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement; and

B. Paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

4. If the registrant is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, *provided* that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or Rule 3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

5. That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

i. If the registrant is relying on Rule 430B (230.430B of this chapter):

A. Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form SB-2

B. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or made in any such document immediately prior to such effective date; or

ii. If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

6. That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described herein, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in Beijing, China on December 18, 2006.

By: **/s/ Brian Lin  
Brian Lin,**

**Chief Executive Officer**

In accordance with the requirements of the Securities Act of 1933, this Registration Statement was signed by the following persons in the capacities and on the dates stated.

| <b>Signatures</b> | <b>Title</b>   | <b>Date</b>       |
|-------------------|--|-------------------|
| /s/ Brian Lin     | Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, and Director | December 18, 2006 |
| /s/ Gangjin Li    | Chairman   | December 18, 2006 |
| /s/ Qihoug Wu     | Director   | December 18, 2006 |