

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

Form 10-Q/A

December 05, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33774

**CHINA SECURITY & SURVEILLANCE TECHNOLOGY,  
INC.**

(Exact name of small business issuer as specified in its charter)

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

**98-0509431**  
(I.R.S. Empl. Ident. No.)

**13/F, Shenzhen Special Zone Press Tower, Shennan Road**

**Futian District, Shenzhen, China 518034**

(Address of principal executive offices, Zip Code)

**(86) 755-8351-0888**

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

The number of shares outstanding of each of the issuer's classes of common equity, as of August 1, 2008 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.0001 par value	45,122,541

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q for the period ended June 30, 2008 of China Security & Surveillance Technology, Inc. (the "Company") is filed solely to amend Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" to remove the per-share information contained in the text and graphic disclosure of the Company's non-cash components for the three months and six months ended June 30, 2008 and 2007.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, each item of the Form 10-Q for the quarter ended June 30, 2008, as originally filed on August 4, 2008, that was affected by the error has been amended and restated in its entirety. Unless otherwise indicated, this report speaks only as of the date that the original report was filed. No attempt has been made in this Form 10-Q/A to update other disclosures presented in the original report on Form 10-Q. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures, including the exhibits to the Form 10-Q affected by subsequent events; however, this Form 10-Q/A includes as exhibits 31.1, 31.2, 32.1 and 32.2 new certifications by the Company's Chief Executive Officer and Chief Financial Officer as required by Rule 12b-15.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### *Special Note Regarding Forward Looking Statements*

This Quarterly Report on Form 10-Q, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, our future operating results, our expectations regarding the market for security and surveillance products, our expectations regarding the continued growth of the security and surveillance market, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause our actual results to differ materially from those anticipated, expressed or implied in the forward-looking statements. These risks and uncertainties include, but not limited to, the factors mentioned in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2007, and other risks mentioned in this Form 10-Q or in our other reports filed with the Securities Exchange Commission (the SEC). The words believe, expect, anticipate, project, targets, optimistic, intend, aim, will or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

### *Use of terms*

Except as otherwise indicated by the context, references in this Form 10-Q to CSR, we, us, our, our Company, Company are to China Security & Surveillance Technology, Inc., a Delaware corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references to

Cheng Feng are to Shanghai Cheng Feng Digital Technology Co. Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Chuang Guan are to Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd., a corporation incorporated in the People's Republic of China;

CSST HK are to China Security & Surveillance Technology (HK) Ltd., a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

CSST PRC are to China Security & Surveillance Technology (PRC) Inc., a corporation incorporated in the People's Republic of China and a direct, wholly owned subsidiary of the Company;

DM are to Beijing DM Security & Technology Co., Ltd., a corporation incorporated in the People's Republic of China;

Golden are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Guanling are to Beijing Aurine Divine Land Technology Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

HiEasy are to HiEasy Electronic Technology Development Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Hongtianzhi are to Shenzhen Hongtianzhi Electronics Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Jin Lin are to Shenzhen Jin Lin Technology Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Kit Grant are to Kit Grant Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

Longhorn are to Shenzhen Longhorn Security Technology Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

Long Top are to Long Top Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Minking are to Changzhou Minking Electronics Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

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Tsingvision are to Hangzhou Tsingvision Intelligence System Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

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Safetech are to China Safetech Holdings Limited, a British Virgin Islands corporation and a wholly owned subsidiary of the Company;

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Sharp Eagle are to Sharp Eagle (HK) Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Sincere On are to Sincere On Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Stonesonic are to Guangdong Stonesonic Digital Technique Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

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BVI are to the British Virgin Islands;

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PRC and China are to the People's Republic of China;

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U.S. dollar, \$ and US\$ are to United States dollars;

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RMB are to Yuan Renminbi of China;

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Securities Act are to Securities Act of 1933, as amended; and



Exchange Act are to the Securities Exchange Act of 1934, as amended.

### *Overview of Our Business*

China Security & Surveillance Technology, Inc. is a Delaware holding company whose China-based operating subsidiaries are primarily engaged in manufacturing, distributing, installing and servicing security and surveillance products and systems and developing security and surveillance related software in China. Our customers are mainly comprised of (i) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues); (ii) governmental entities (including customs agencies, courts, public security bureaus and prisons), and (iii) non-profit organizations (including schools, museums, sports arenas and libraries). These account for approximately 55%, 44% and 1% of our revenues for the three months ended June 30, 2008, respectively.

Our sales network covers most of China's populated areas and we do not rely on any particular region for our business. Our subsidiaries collectively have more than 150 branch offices and distribution points.

In the second quarter of 2008, we acquired three companies that are engaged in the security and surveillance business in China: Stonesonic, Longhorn and Guanling.

On April 2, 2008, we purchased 100% ownership of Kit Grant Limited which is a holding company that owns all the outstanding equity of Stonesonic. Stonesonic is a leading monitoring equipment solutions provider in China that has a broad array of large flat panel display equipment. Under the equity purchase agreement, we agreed to pay a total consideration of RMB227.0 million (approximately \$32.3 million) in exchange for 100% ownership of Kit Grant Limited, consisting of RMB125 million (approximately \$17.8 million) in cash and 953,918 shares of our common stock valued at RMB102.04 million (approximately \$14.5 million). Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

On April 2, 2008, we acquired 100% ownership of Sincere On Limited which is a holding company that owns all the outstanding equity of Longhorn. Longhorn specializes in the manufacture and installation of security alarm systems in China. Under the equity purchase agreement, we agreed to pay a total consideration of RMB120.6 million (approximately \$17.2 million) in exchange for 100% ownership of Sincere On Limited, consisting of RMB36.0 million (approximately \$5.1 million) in cash and 790,502 shares of our common stock valued at RMB84.56 million (approximately \$12.0 million). Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

On April 21, 2008, we acquired 100% ownership of Sharp Eagle (HK) Limited which is a holding company that owns all the outstanding equity of Guanling. Guanling is the appointed sales agent of Panasonic, Axis Communications and Samsung in China, for closed-circuit surveillance systems, public broadcasting equipments and plasma TV. Under the agreement, we agreed to pay a total consideration of RMB 39.1 million (approximately \$5.6 million) in exchange for 100% ownership of Sharp Eagle, consisting of RMB 12.5 million (approximately \$1.6 million) in cash and 206,661 shares of our common stock valued at RMB 26.6 million (approximately \$3.9 million). Please see our Current Report on Form 8-K filed on April 25, 2008 for more details.

### ***Recent Developments***

On July 7, 2008, we acquired 100% ownership of Long Top Limited which is the holding company that owns all the outstanding equity of Jin Lin. Jin Lin is engaged in professional intelligent security monitoring systems and intelligent transportation system product development. Under the equity transfer agreement, we agreed to pay RMB68.6 million (approximately \$10.0 million) in exchange for 100% ownership of Jin Lin, consisting of RMB 40.0 million (approximately \$5.8 million) in cash and 268,870 shares of our common stock valued at RMB28.6 million (approximately \$4.2 million). In July, 2008, the Company has paid RMB13.0 million (approximately \$1.9 million) of the cash portion of the purchase price, the remaining RMB27.0 million (approximately \$3.9 million) of the cash consideration will be paid upon Long Top and Jin Lin's achievement of certain financial thresholds. The equity portion of the purchase price is expected to be issued in the third quarter of 2008. Please see our Current Report on Form 8-K filed on July 11, 2008 for more details.

On July 23, 2008, we consummated a private placement transaction in which it issued 722,544 units to certain non-U.S. investors for an aggregate gross cash purchase price of \$10 million at per share price of \$13.84. Each unit consists of one share of our common stock and a warrant to purchase one-fifth of one share of common stock. The exercise price for each whole warrant is \$19.23. The warrants have a term of 3 years and include a cashless exercise feature.

### ***Reportable Operating Segments***

Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has set up a new segment for distribution of security and safety products and realigned its management and segment reporting structure effective January 1, 2008. During 2008, we set up a new segment Distribution Segment. The Company reports financial and operating information in the following three segments:

(a) System installation: designs, sells, installs, services and monitors electronics security systems to residential, commercial, industrial and governmental customers (the Installation Segment );

(b) Manufacturing of security and safety products: designs, manufactures and sells security and safety products, including intrusion security, access control and video management systems (the Manufacturing Segment ); and

(c) Distribution of security and safety products: sells security and safety products, including intrusion security, access control and video management systems (the Distribution Segment ).

The Company also provides general corporate services to its segments and these costs are reported as Corporate and others.

***Second Quarter Financial Performance Highlights***

We continued to experience strong demand for our products and services during the second fiscal quarter of 2008 and growth in our revenues and net income. The security and surveillance product market in China continued to expand in the second quarter of 2008 due, in part, to several programs and regulatory drivers initiated by the Chinese government, such as State Ordinance 458 and the Safe City program, which require many public places, including city-wide surveillance systems, traffic conjunctions, critical government locations, cyber cafés, bars and discotheques, to install security systems. In addition, the economic development in China and the fact that the population in China in general is becoming relatively wealthier also contributed to increased demand for security and surveillance products within various industries and organizations, such as residential estates, factories and shopping centers. Our second fiscal quarter financial results also benefited from the consolidation of the three newly acquired companies, which contributed approximately \$11.0 million revenues in aggregate, accounting for approximately 11.9% of the total revenues of the second fiscal quarter of 2008.

The following are some financial highlights for the second quarter of 2008:

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*Revenues:* Revenues increased \$40.61 million, or 77.9%, to \$92.74 million for the second quarter of 2008, from \$52.13 million for the same quarter of last year.

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*Gross margin:* Gross margin was 32.8% for the second quarter of 2008, compared to 28.6% for the same period in 2007.

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*Income from operations:* Income from operations increased \$4.60 million, or 47.7%, to \$14.25 million for the second quarter of 2008, from \$9.65 million for the same period last year.

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*Operating margin:* Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 15.4% for the second quarter of 2008, compared to 18.5% during the same period in 2007.

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*Net income:* Net income increased \$3.47 million, or 81.3%, to \$7.74 million for the second quarter of 2008, from \$4.27 million for the same period of last year.

*Net margin:* Net margin (the ratio of net income to revenues, expressed as a percentage) was 8.3% for the second quarter of 2008, compared to 8.2% for the same period in 2007.

*Fully diluted net income per share:* Fully diluted net income per share was \$0.17 for the second quarter of 2008, as compared to \$0.11 for the same period last year.

*Non-cash items:* Non-cash items included (i) the redemption accretion on convertible notes was \$4.36 million for the second quarter of 2008, as compared to \$3.82 million for the same period last year, (ii) depreciation and amortization was \$2.33 million for the second quarter of 2008, as compared to \$1.08 million for the same period last year, and (iii) non-cash employee compensation expense was \$3.11 million for the second quarter of 2008, as compared to \$0.80 million for the same period last year. Total non-cash items are \$9.80 million for the second quarter of 2008, an increase of \$4.10 million, or 71.9%, from \$5.70 million for the same period last year.

Our net income for the three months ended June 30, 2008 and 2007 was \$7.74 million and \$4.27 million, respectively. Our net income for the six months ended June 30, 2008 and 2007 was \$12.23 million and \$8.80 million, respectively. Our net income was materially impacted by depreciation and amortization of long-lived assets in the subsidiaries we acquired, non-cash employee compensation recognized pursuant to SFAS 123 (R) and redemption accretion on convertible notes. In the table below, we have presented a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the depreciation and amortization of long-lived assets in the subsidiaries we acquired, non-cash employee compensation and redemption accretion on convertible notes on our net income. Because these items do not require the use of current assets, management does not include these items in its analysis of our financial results or how we allocate our resources. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of these significant items on our financial results.

The following table summarizes the Company's non-cash components during the three months ended June 30, 2008 and 2007.

All amounts in millions of U.S. dollars

Non-cash items	Three Months Ended June 30,			Increase
	2008	2007	(Decrease)	
Depreciation and amortization	\$ 2.13	\$ 1.08	\$	1.05
Depreciation and amortization (included in cost of goods sold)	0.20	--		0.20
Non-cash employee compensation	3.11	0.80		2.31
Redemption accretion on convertible notes	4.36	3.82		0.54
<b>Total</b>	\$ 9.80	\$ 5.70	\$	4.10

The following table summarizes the Company's non-cash components during the six months ended June 30, 2008 and 2007:

All amounts in millions of U.S. dollars

<b>Non-cash items</b>	<b>Six Months Ended June 30,</b>				<b>Increase</b>
	<b>2008</b>	<b>2007</b>			
Depreciation and amortization	\$ 3.95	\$ 1.89	\$	2.06	
Depreciation and amortization (included in cost of goods sold)	0.29	--		0.29	
Non-cash employee compensation	6.07	1.07		5.00	
Redemption accretion on convertible notes	8.73	4.98		3.75	
<b>Total</b>	<b>\$ 19.04</b>	<b>\$ 7.94</b>	<b>\$</b>	<b>11.10</b>	

**Results of Operations**

The following table sets forth key components of our results of operations for the periods indicated, in millions of U.S. dollars and as a percentage of revenues.

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

	<b>Three months ended June 30,</b>				<b>Six months ended June 30,</b>							
	<b>2008</b>		<b>2007</b>		<b>2008</b>		<b>2007</b>					
<b>Revenues</b>	\$	92.74	100.0%	\$	52.13	100.0%	\$	164.52	100.0%	\$	90.58	100.0%
Cost of goods sold (including depreciation and amortization for the three and six months ended June 30, 2008 and 2007 of \$0.2, \$0.29, \$0 and \$0)		(62.28)	67.2%		(37.23)	71.4%		(111.81)	68.0%		(65.57)	72.4%
<b>Gross profit</b>		30.46	32.8%		14.90	28.6%		52.71	32.0%		25.01	27.6%
Selling and marketing		(2.99)	3.2%		(0.86)	1.6%		(5.13)	3.1%		(1.46)	1.6%
General and administrative		(7.98)	8.6%		(2.51)	4.8%		(12.18)	7.4%		(4.49)	5.0%
Non-cash employee compensation		(3.11)	3.4%		(0.80)	1.5%		(6.07)	3.7%		(1.07)	1.2%
Depreciation and amortization		(2.13)	2.3%		(1.08)	2.1%		(3.95)	2.4%		(1.89)	2.1%
<b>Income from operations</b>		14.25	15.4%		9.65	18.5%		25.38	15.4%		16.10	17.8%
Other income		0.42	0.5%		0.49	0.9%		0.83	0.5%		1.21	1.3%
Interest expense, Cash		(0.42)	0.5%		(0.29)	0.6%		(0.92)	0.6%		(0.45)	0.5%
Redemption accretion on convertible notes		(4.36)	4.7%		(3.81)	7.3%		(8.73)	5.3%		(4.98)	5.5%
<b>Income before income taxes</b>		9.89	10.7%		6.04	11.6%		16.56	10.1%		11.88	13.1%
Income taxes		(2.15)	2.3%		(1.77)	3.4%		(4.33)	2.6%		(3.08)	3.4%
<b>Net income</b>	\$	7.74	8.3%	\$	4.27	8.2%	\$	12.23	7.4%	\$	8.80	9.7%



**Comparison of Three Months Ended June 30, 2008 and June 30, 2007**

*Revenues.*

Our revenues are generated from system installations and manufacturing and distribution of security and safety products. During the three months ended June 30, 2008, we experienced solid growth in revenues. Revenues increased \$40.61 million, or 77.9%, to \$92.74 million for the three months ended June 30, 2008 from \$52.13 million for the three months ended June 30, 2007. The increase in revenues was mainly attributable to growth in the security and surveillance market in China, the increased market demand for our products, our increased brand recognition and the acquisition of three companies in the second quarter of 2008. Our strategic efforts to increase our distribution channels during 2005 and 2006 and sufficient working capital from our recent fundraising activities also allowed us to successfully take advantage of the growth in market demand in the second quarter of 2008.

After Stonesonic, Longhorn and Guanling became our wholly owned subsidiaries in April 2008, we consolidated the financial results of these three companies beginning in the second quarter of 2008, which contributed \$4.23 million, \$3.26 million, and \$3.49 million to our revenues in the second quarter of 2008. We consolidated the financial results of Hongtianshi, HiEasy, Minking and Tsingvision from the second and third quarters of 2007 and Cheng Feng starting from the third quarter of 2006. Hongtianshi, HiEasy, Minking and Tsingvision had revenues of \$5.27 million, \$2.80 million, \$4.80 million and \$0.37 million in the second quarter of 2008. As Cheng Feng's acquisition has surpassed the one year anniversary, we have included these revenues in our organic growth since the fourth quarter of 2007. Cheng Feng had revenues of \$6.73 million in the second quarter of 2008.

The following table shows the revenues recognized in the second quarter of 2008:

(In millions of U.S. dollars)

Revenues from the Installation Segment recognized from installation contracts signed before the first quarter of 2008	\$	25.1
Revenues from the Installation Segment recognized from installation contracts signed in the second quarter of 2008	\$	37.0
Revenues from the Manufacturing Segment recognized from manufacturing contracts signed before the first quarter of 2008	\$	0.9
Revenues from the Manufacturing Segment recognized from manufacturing contracts signed in the second quarter of 2008	\$	19.5
Revenues from the Distribution Segment	\$	10.2
Total revenues recognized in the second quarter of 2008	\$	92.7
Revenues deferred	\$	1.1
Backlog of contracts for system installation and manufacturing of security and safety products signed before June 30, 2008 (1)	\$	42.2

(1) We have conservatively not included letters of intent, framework agreements and various other agreements in our backlog numbers as they are subject to final binding agreements to be entered into at later dates.

Our revenues are generated from three business segments: Installation Segment, Manufacturing Segment and Distribution Segment. The following table shows the different segments comprising our total revenues for the three months ended June 30, 2008 and 2007.

All amounts, except percentage of revenues, in millions of U.S. dollars

Revenues	Three months ended June 30,					
	2008			2007		
Installation Segment	\$	62.15	67.0%	\$	39.37	75.5%
Manufacturing Segment		20.36	22.0%		12.76	24.5%
Distribution Segment		10.23	11.0%		--	--
Total	\$	92.74	100.0%	\$	52.13	100.0%

For the three months ended June 30, 2008 and 2007, our Installation Segment generated revenues of \$62.15 million and \$39.37 million which represented 67.0% and 75.5% of our total revenues, respectively. Such increase in revenues was mainly due to the following factors: First, demand for security and surveillance products has grown in China,

which we attribute in part to the population in China in general becoming relatively wealthier; as well as increased demand within various industries and organizations, such as residential estates, factories and shopping centers; Second, the Chinese government initiated several programs and regulatory drivers during 2006, such as State Ordinance 458 and the 3111 program, that require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems; Third, our strategic efforts to increase our distribution channels during 2007 and 2008 allowed us to successfully take advantage of the growth in market demand in the second quarter of 2008; Fourth, we have been successful in raising sufficient working capital to facilitate expansion in the China market; Finally, our increased brand recognition in 2008 also contributed to the growth in sales revenue.

For the three months ended June 30, 2008 and 2007, our Manufacturing Segment generated revenues of \$20.36 million and \$12.76 million, representing 22% and 24.5% of our total revenues, respectively. Such increase in revenues was mainly attributed to the acquisition of Stonesonic and Longhorn and organic growth in the Manufacturing Segment.

In the first quarter of 2008, we established a new segment Distribution Segment, which generated revenues of \$10.23 million, representing 11% of our total revenues for the three months ended June 30, 2008.

Management believes that revenues from the Installation Segment will continue to be the Company's major revenue source in the next a few years. With the recent acquisitions of Stoneonic, Longhorn and Guanling and other planned acquisitions, management believes that the percentage of revenues from the Manufacturing Segment and the Distribution Segment will increase in the future.

Management expects growth in all three segments to remain strong in the remainder of 2008 due to (i) continued growth in the security and surveillance market both within the corporate and government sectors, (ii) better capitalization of the Company to fuel its growth, (iii) continued enhancement of our branding and profiling in China, and (iv) an acquisition strategy intended to boost our market share and competitiveness.

***Cost of goods sold***

Our cost of goods sold is primarily comprised of the costs of our raw materials, labor and overhead. Cost of goods sold for the second quarter of 2008 increased by 67.2% to \$62.28 million, as compared to \$37.23 million for the same period last year. The increase was mainly due to the reasons as described below.

***Gross profit and gross margin***

Our gross profit is equal to the difference between our revenues and our cost of goods sold. Our gross profit increased \$15.56 million, or 104.4%, to \$30.46 million for the three months ended June 30, 2008, from \$14.90 million for the same period last year. Gross margin for the three months ended June 30, 2008 was 32.8%, as compared to 28.6% for the same period of 2007. The increase in our gross margin was primarily driven by the cost savings derived from the increase in economies of scale.

The following table shows the different segment components comprising our gross profit margin over the three months ended June 30, 2008 and 2007.

<b>Gross Margin</b>	<b>Three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Installation Segment	34.0%	27.8%
Manufacturing Segment	35.0%	31.0%
Distribution Segment	21.6%	--
Total	32.8%	28.6%

For the three months ended June 30, 2008, gross margins of the Installation Segment and Manufacturing Segment were approximately 34.0% and 35.0%, respectively, compared to 27.8% and 31.0% for the same period last year. Gross margin of our newly established Distribution Segment was 21.6% in the second quarter of 2008. The gross margin of the Installation Segment increased because as the scale of our projects increased, our margin for those projects increased. The increase in our gross margin of Manufacturing Segment was primarily driven by increased economies of scale. For the three months ended June 30, 2008, gross margin of the Distribution Segment was 21.6%.

***Selling and marketing expenses***

Our selling and marketing expenses are comprised primarily of sales commissions, the cost of advertising and promotional materials, salaries and fringe benefits of sales personnel, after-sale support services and other sales related costs. Our selling and marketing expenses increased \$2.13 million, or 247.7%, to \$2.99 million for the three months ended June 30, 2008 from \$0.86 million for the same period in 2007. This dollar increase was primarily attributable to the consolidation of the financial results of Tsingvision, Stonesonic, Longhorn and Guanling which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 3.2% for the three months ended June 30, 2008 from 1.6% for the same period in 2007. The percentage increase was mainly due to the hiring of additional staff and increased cost in promotion of our products to new customers.

*General and administrative expenses*

General and administrative expenses consist primarily of compensation and benefits to our general management, finance and administrative staff, professional advisor fees, audit fees and other expenses incurred in connection with general operation. Our general and administrative expenses increased \$5.47 million, or 217.9%, to \$7.98 million for the three months ended June 30, 2008 from \$2.51 million for the same period in 2007. As a percentage of revenues, general and administrative expenses increased to 8.6% for the three months ended June 30, 2008 from 4.8% for the same period in 2007. The dollar and percentage increase was mainly due to the consolidation of the financial results of Stonesonic, Longhorn and Guanling, the hiring of additional staff, the increased costs in connection with improving our internal controls and professional expenses related to the costs of these newly acquired subsidiaries became part of a public reporting company.

### ***Non-cash employee compensation***

Effective February 7, 2007, our board of directors adopted our 2007 Equity Incentive Plan (the Plan). The Plan was subsequently amended and approved by the Company's stockholders in February 2008. The Plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of 8,000,000 shares of our common stock may be issued under the Plan. During the three months ended June 30, 2008, we granted an aggregate of 317,501 shares of restricted stock pursuant to the Plan to our employees and consultants. These shares will vest with respect to each of the employees and consultants over a period of four years.

Non-cash employee compensation for the three months ended June 30, 2008 increased to \$3.11 million from \$0.80 million for the same period in 2007, primarily because we granted more shares of restricted stock under the Plan in the second quarter of 2008.

### ***Depreciation and amortization***

Our depreciation and amortization costs increased \$1.25 million, or 115.7%, to \$2.33 million (including \$0.20 million depreciation and amortization costs included under cost of goods sold) for the three months ended June 30, 2008 from \$1.08 million for the same period in 2007. As a percentage of revenues, depreciation and amortization expenses increased to 2.5% for the three months ended June 30, 2008 from 2.1% for the same period in 2007. Such dollar and percentage increase was primarily due to the amortization of intangible assets from the acquisition of Tsingvision, Stonesonic, Longhorn, and Guanling and the establishment of exclusive cooperation relationship with DM.

### ***Income from operations***

Our income from operations increased \$4.60 million, or 47.7%, to \$14.25 million for the three months ended June 30, 2008 as compared to \$9.65 million for the same period in 2007. As a percentage of revenues, income from operations decreased to 15.4% for the three months ended June 30, 2008 from 18.5% for the same period in 2007. Such percentage decrease was primarily due to the increase of our selling and marketing expenses, general and administrative expenses and non-cash employee compensation as discussed above.

The following table shows the different segments comprising our income from operations for the three months ended June 30, 2008 and 2007.

All amounts, except percentage of income from operations, in millions of U.S. dollars

Income from operations	Three months ended June 30,					
	2008		2007			
Installation Segment	\$	17.55	123.2%	\$	8.95	93.0%
Manufacturing Segment		2.17	15.2%		2.13	22.1%
Distribution Segment		(0.20)	-1.4%		--	--
Corporate and others		(5.27)	-37.0%		(1.43)	-15.1%
Total	\$	14.25	100.0%	\$	9.65	100.0%

Income from operations related to the Installation Segment increased 96.1%, or \$8.60 million to \$17.55 million for the three months ended June 30, 2008, compared to \$8.95 million for the same period in 2007. Such increase was mainly due to higher demand of total one-stop-shop installations from customers. We finished more projects than we planned in the second quarter of 2008.

Income from operations related to the Manufacturing Segment increased 1.9%, or \$0.04 million to \$2.17 million for the three months ended June 30, 2008, compared to income from operations of \$2.13 million for the same period in 2007. Our acquisitions in the second quarters of 2007 and 2008 greatly increased our sales of manufactured products. However, during the three months ended June 30, 2008, our Manufacturing Segment hired additional staff to meet the anticipated growth of the Manufacturing Segment which largely offset the growth in revenues. We expect that the Manufacturing Segment margin will continue to increase as we integrate the recently completed acquisitions which will allow us to further benefit from economies of scale.

Loss from operations related to our new Distribution Segment, which was still under development, was \$0.2 million for the three months ended June 30, 2008.

Loss from operations related to the Corporate and others increased 268.5% or \$3.84 million to \$5.27 million for the three months ended June 30, 2008, compared to \$1.43 million for the same period in 2007. Such increase was mainly due to the increase of non-cash compensation as discussed above and professional expenses related to the costs of being a public reporting company.

***Other income***

Our other income decreased \$0.07 million, or 14.3% to \$0.42 million for the three months ended June 30, 2008 from \$0.49 million for the same period in 2007. As a percentage of revenues, other income decreased to 0.5% for the three months ended June 30, 2008 from 0.9% for the same period in 2007. Such percentage decrease was primarily because we did not receive any rental income from related parties in the second quarter of 2008. Those rental properties were disposed of in 2007.

***Interest expense (excluding redemption accretion on convertible notes)***

During the second quarter of 2008, we had two bank loans from local Chinese banks outstanding and incurred a total interest expense of \$0.42 million, as compared to \$0.29 million for the same period in 2007. For the convertible notes, we paid \$0.28 million interest during the three months ended June 30, 2008.

***Redemption accretion on convertible notes***

Redemption accretion on convertible notes for the three months ended June 30, 2008 was \$4.36 million, as compared to \$3.81 million for the same period in 2007. We raised \$110 million from the issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be repaid if the convertible notes are converted into shares of our common stock before their respective maturities.

***Income before taxes***

Our income before taxes increased \$3.85 million, or 63.7%, to \$9.89 million for the three months ended June 30, 2008 from \$6.04 million for the same period in 2007. As a percentage of revenues, income before taxes decreased to 10.7% from 11.6% for the same period in 2007. Such percentage decrease was primarily due to increased non-cash expenses, including the redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation as discussed above.

***Income Taxes***



China Security & Surveillance Technology, Inc. is subject to United States federal income tax at a tax rate of 34%. No provision for income taxes in the United States has been made as China Security & Surveillance Technology, Inc. had no United States taxable income during the three months ended June 30, 2008.

Our wholly owned subsidiary Safetech was incorporated in the British Virgin Island and, under the current laws of the BVI, is not subject to income taxes.

Before January 1, 2008, foreign invested enterprises ( FIEs ) established in the PRC were generally subject to an enterprise income tax ( EIT ) rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax. FIEs established in Shenzhen Special Economic Zone, such as our Chinese subsidiaries Golden and other high-technology subsidiaries, were subject to a reduced tax rate. On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law ( EIT Law ), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which took effect on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. Therefore, beginning January 1, 2008, nearly all FIEs and other domestic businesses are subject to the new tax rate rather than benefiting from the foreign enterprise income tax and its associated preferential tax treatments.

Despite these pending changes, the EIT Law gives the FIEs established before March 16, 2007 ( Old FIEs ) a five-year grandfather period during which they can continue to enjoy their existing preferential tax treatments. During this five-year grandfather period, the Old FIEs which enjoyed tax rates lower than 25% under the original EIT Law shall gradually increase their EIT rate by 2% per year until the tax rate reaches 25%. In addition, the Old FIEs that are eligible for the two-year exemption and three-year 50% tax reduction or five-year exemption and five-year 50% tax reduction under the original EIT Law, are allowed to continue their preference until these holidays expire.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term de facto management bodies as an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, the organization's global income will be subject to PRC income tax of 25%.

Our subsidiary Golden is subject to an EIT rate of 15% for the fiscal year 2008. Our subsidiary Hongtianzhi is located in Shenzhen and its corporate tax rate is 7.5% because it receives a lower tax rate as a high-tech company. Our subsidiary Cheng Feng is subject to an EIT rate of 15% for fiscal year 2008 due to its software and status as a high technology company. HiEasy, Minking, Tsingvision, Stonesonic and Guanling are subject to an EIT rate of 25%. Longhorn is exempt from EIT in 2008.

Income taxes increased \$0.38 million to \$2.15 million for the three months ended June 30, 2008 from \$1.77 million for the same period of 2007. We paid more taxes during the three months ended June 30, 2008 primarily because of the increased income before income taxes during that period.

### *Net income*

Net income increased \$3.47 million, or 81.3%, to \$7.74 million for the three months ended June 30, 2008 from \$4.27 million for the same period in 2007.

### **Comparison of Six Months Ended June 30, 2008 and June 30, 2007**

#### *Revenue*

During the six months ended June 30, 2008, we experienced solid growth in revenues. The following table shows the different segments comprising our total revenues for the six months ended June 30, 2008 and 2007.

All amounts, except percentage of revenues, in millions of U.S. dollars

Revenues	Six months ended June 30,			
	2008		2007	
Installation Segment	121.69	74.0%	73.39	81.0%
Manufacturing Segment	28.49	17.3%	17.19	19.0%
Distribution Segment	14.34	8.7%	--	--
Total	164.52	100.0%	90.58	100.0%

For the six months ended June 30, 2008 and 2007, our Installation Segment generated revenues of \$121.69 million and \$73.39 million which represented 74% and 81% of our total revenues, respectively. The increase in revenues was mainly due to the following factors: First, demand for security and surveillance products has grown in China, which we attribute in part to the population in China in general becoming relatively wealthier; as well as increased demand within various industries and organizations, such as residential estates, factories and shopping centers; Second, the Chinese government initiated several programs and regulatory drivers during 2006, such as State Ordinance 458 and the "3111" program, that require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems; Third, our strategic efforts to increase our distribution channels during 2007 and 2008 allowed us to successfully take advantage of the growth in market demand in the first six months of 2008; Fourth, we have been successful in raising sufficient working capital to facilitate expansion in the China market; Finally, our increased brand recognition in 2007 also contributed to the growth in sales revenue.

For the six months ended June 30, 2008 and 2007, our Manufacturing Segment generated revenues of \$28.49 million and \$17.19 million, representing 17.3% and 19% of our total revenues, respectively. The increase in revenues was mainly attributed to the acquisition of Stonesonic and Longhorn.

In the first six months of 2008, we established a new segment — our Distribution Segment, which generated revenues of \$14.34 million, representing 8.7% of our total revenues for the six months ended June 30, 2008.

***Cost of goods sold***

Cost of goods sold for the six months ended June 30, 2008 increased by 70.5% to \$111.81 million, as compared to \$65.57 million for the same period last year. The increase was primarily due to the reasons as described below.

***Gross profit and gross margin***

Our gross profit increased \$27.7 million, or 110.8%, to \$52.71 million for the six months ended June 30, 2008, from \$25.01 million for the same period last year. Gross margin for the six months ended June 30, 2008 was 32.0%, as compared to 27.6% for the same period of 2007. The increase in our gross margin was primarily driven by the change of product mix and increased economies of scale.

The following table shows the different segment components comprising our gross profit margin over the six months ended June 30, 2008 and 2007.

<b>Gross Margin</b>	<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Installation Segment	31.9%	27.4%
Manufacturing Segment	35.2%	28.8%
Distribution Segment	26.8%	--
Total	32.0%	27.6%

For the six months ended June 30, 2008, gross margins for the Installation Segment and Manufacturing Segment were approximately 31.9% and 35.2%, respectively, compared to 27.4% and 28.8% for the same period last year. Gross margin for our newly established Distribution Segment was 26.8% in the first six months of 2008. The gross margin for the Installation Segment increased because of the increase of the scale of our projects. The increase in gross margin for the Manufacturing Segment was primarily driven by increased economies of scale. For the six months ended June 30, 2008, gross margin for Distribution Segment was 26.8%.

***Selling and marketing expenses***

Our selling and marketing expenses increased \$3.67 million, or 251.4%, to \$5.13 million for the six months ended June 30, 2008 from \$1.46 million for the same period in 2007. This dollar increase was primarily attributable to the consolidation of the financial results of Cheng Feng, Hongtianshi, HiEasy, Minking, Tsingvision, Stonesonic,

Longhorn and Guanling which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 3.1% for the six months ended June 30, 2008 from 1.6% for the same period in 2007. The percentage increase was mainly due to the hiring of additional staff and increased cost in promotion of our products to new customers.

***General and administrative expenses***

Our general and administrative expenses increased \$7.69 million, or 171.3%, to \$12.18 million for the six months ended June 30, 2008 from \$4.49 million of the same period in 2007. As a percentage of revenues, general and administrative expenses increased to 7.4% for the six months ended June 30, 2008 from 5.0% for the same period in 2007. The dollar and percentage increase was mainly due to the consolidation of the financial results of Stonesonic, Longhorn and Guanling, the hiring of additional staff, the increased costs in connection with improving our internal controls and professional expenses related to the costs of the newly acquired subsidiaries became part of a public reporting company.

***Non-cash employee compensation***

During the six months ended June 30, 2008, we granted an aggregate of 499,001 shares of restricted stock pursuant to the Plan to our employees and consultants. These shares will vest with respect to each of the employees and consultants over a period of four years.

Non-cash employee compensation for the six months ended June 30, 2008 increased to \$6.07 million from \$1.07 million for the same period in 2007, primarily because we granted more shares of restricted stock under the Plan in the first six months of 2008.

**Depreciation and amortization**

Our depreciation and amortization costs increased \$2.35 million, or 124.3%, to \$4.24 million (including \$0.29 million depreciation and amortization costs included under cost of goods sold) for the six months ended June 30, 2008 from \$1.89 million for the same period in 2007. As a percentage of revenues, depreciation and amortization expenses increased to 2.6% for the six months ended June 30, 2008 from 2.1% for the same period in 2007. Such dollar and percentage increase was primarily due to the amortization of intangible assets from the acquisition of Tsingvision, Stonesonic, Longhorn, and Guanling and the establishment of exclusive cooperation relationship with DM. The amortization of intangible assets increased as a result of these acquisitions.

**Income from operations**

Our income from operations increased \$9.28 million, or 57.6%, to \$25.38 million for the six months ended June 30, 2008 as compared to \$16.10 million for the same period in 2007. As a percentage of revenues, income from operations decreased to 15.4% for the six months ended June 30, 2008 from 17.8% for the same period in 2007. Such percentage decrease was primarily due to the increase of our selling and marketing expenses, general and administrative expenses and non-cash employee compensation as discussed above.

The following table shows the different segments comprising our income from operations for the six months ended June 30, 2008 and 2007.

All amounts, except percentage of income from operations, in millions of U.S. dollars

<b>Income from operations</b>	<b>Six months ended June 30,</b>					
		<b>2008</b>		<b>2007</b>		
Installation Segment	\$	32.52	128.2%	\$	17.43	108.3%
Manufacturing Segment		3.25	12.8%		1.96	12.1%
Distribution Segment		0.39	1.5%		--	0.0%
Corporate and others		(10.78)	-42.5%		(3.29)	-20.4%
Total	\$	25.38	100.0%	\$	16.10	100.0%

Income from operations related to the Installation Segment increased 86.6%, or \$15.09 million to \$32.52 million for the six months ended June 30, 2008, compared to \$17.43 million for the same period in 2007. Such increase was mainly due to higher demand of total one-stop-shop installations from customers. We finished more projects than we planned in the first six months of 2008.

Income from operations related to the Manufacturing Segment increased 65.8%, or \$1.29 million to \$3.25 million for the six months ended June 30, 2008, compared to income from operations of \$1.96 million for the same period in 2007. Such increase was mainly due to the acquisitions we made in the second and third quarter of 2007 and the acquisitions we made in the second quarter of 2008, which greatly increased our sales of manufactured products.

Income from operations related to our newly established Distribution Segment was \$0.39 million for the six months ended June 30, 2008.

Loss from operations related to Corporate and others increased 227.7% or \$10.78 million for the six months ended June 30, 2008, compared to \$3.29 million for the same period in 2007. Such increase was mainly due to the increase of non-cash compensation as discussed above and professional expenses related to the costs of being a public reporting company.

***Other income***

Our other income decreased \$0.38 million, or 31.4% to \$0.83 million for the six months ended June 30, 2008 from \$1.21 million for the same period in 2007. As a percentage of revenues, other income decreased to 0.5% for the six months ended June 30, 2008 from 1.3% for the same period in 2007. Such percentage decrease was primarily because we did not receive any rental income from related parties in the second quarter of 2008. Those rental properties were disposed of in 2007.

***Interest expense (excluding redemption accretion on convertible notes)***

We had three bank loans from local Chinese banks outstanding in the first quarter of 2008 and two loans outstanding in the second quarter of 2008, as a result, we incurred a total interest expense of \$0.92 million, as compared to \$0.45 million of the same period in 2007. For the convertible notes, we paid \$0.55 million interest during the six months ended June 30, 2008.

***Redemption accretion on convertible notes***

Redemption accretion on convertible notes for the six months ended June 30, 2008 was \$8.73 million, as compared to \$4.98 million for the same period in 2007.

***Income before taxes***

Our income before taxes increased \$4.68 million, or 39.4%, to \$16.56 million for the six months ended June 30, 2008 from \$11.88 million for the same period in 2007. As a percentage of revenues, income before taxes decreased to 10.1% from 13.1% for the same period in 2007. Such percentage decrease was primarily due to increased non-cash expenses, including the redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation as discussed above.

***Income taxes***



Our income taxes increased \$1.25 million to \$4.33 million for the six months ended June 30, 2008 from \$3.08 million for the same period of 2007. We paid more taxes during the first six months of 2008 as a result of increased income during that period.

### *Net income*

Net income increased \$3.43 million, or 39.0%, to \$12.23 million for the six months ended June 30, 2008 from \$8.80 million for the same period in 2007. As a percentage of revenues, net income decreased to 7.4% for the six months ended June 30, 2008 from 9.7% for the same period in 2007. This percentage decrease was mainly due to the non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation.

## **Liquidity and Capital Resources**

### *General*

As of June 30, 2008, we had cash and cash equivalents (including restricted cash) of \$88.60 million. The following table sets forth a summary of our net cash flows for the periods indicated.

### **CASH FLOW**

(All amounts in millions of U.S. dollars)

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net cash provided by (used in) operating activities	\$ 11.06	\$ (3.78)
Net cash used in investing activities	\$ (8.38)	\$ (52.41)
Net cash (used in) provided by financing activities	\$ (9.30)	\$ 116.48
Effect of exchange rate changes on cash	\$ 6.15	\$ 0.51
Net cash (outflow) inflow	\$ (0.47)	\$ 60.80

### *Operating Activities*

Net cash provided by operating activities in the six months ended June 30, 2008 totaled \$11.06 million as compared to \$3.78 million net cash used in operating activities for the same period of 2007. The increase of net cash provided by operating activities in the six months ended June 30, 2008 was primarily due to decreases in inventories.

### ***Investing Activities***

Our main uses of cash for investing activities during the first six months of 2008 were deposits for the acquisition of subsidiaries and businesses and for property, plant and equipment.

Net cash used in investing activities for the six months ended June 30, 2008 was \$8.38 million, which is a decrease of \$44.03 million from net cash used in investing activities of \$52.41 million in the same period of 2007. Such decrease was primarily due to decreased deposits for acquisitions of subsidiaries and proceeds from the disposal of land use rights and properties in 2008.

We closed the acquisition of Stonesonic and Longhorn on April 2, 2008. We also closed the acquisition of Guanling on April 21, 2008. In addition, we have signed letters of intent to acquire Shenzhen Alean Technology Development Co., Ltd., Shenzhen Coson Technology Limited, Zhuhai DIT Digital Co., Ltd., Shenzhen Skyrise Technology Limited and Shenzhen Jin Lin Technology Co., Ltd. Pursuant to the letters of intent, the cash consideration for these intended acquisitions is expected to total \$22 million with additional consideration to be paid in equity. Consummation of these acquisitions is subject to customary closing conditions, including execution of definitive agreement and receipt of governmental approval. We expect to finance the cash portion of the purchase price with the net proceeds from our \$50 million convertible notes financing that closed in April 2007. The number of our shares to be included in the equity portion of the purchase price for Stonesonic, Longhorn and Guanling acquisitions will be subject to the achievement of certain net income performance targets over a two-year period. The acquisitions of Stonesonic, Longhorn and Guanling are expected to be accretive to earnings upon closing and are expected to provide support to the Company's city-wide projects.

### ***Financing Activities***

Net cash used in financing activities in the six months ended June 30, 2008 totaled \$9.30 million as compared to \$116.48 million provided by financing activities in the same period of 2007. The net cash use in financing activities was mainly attributable to the repayment of bank loans in the first six months of 2008, whereas the net cash provided by financing activities in the six months ended June 30, 2007 was mainly attributable to proceeds from the two convertible notes received in February 2007 and in April 2007.

### ***Loan Facilities***

As of June 30, 2008, the amount, maturity date and duration of each of our bank loans were as follows:

All amounts in millions of U.S. dollars

<b>Bank</b>	<b>Amount</b>	<b>Maturity Date</b>	<b>Duration</b>
China Citic Bank	\$ 4.37	November 2008	1 year
Shenzhen Ping An Bank	1.01	March 2009	3 years
Total	\$ 5.38		

In January 2008, we entered into a loan agreement with Shanghai Pudong Development Bank pursuant to which the Company borrowed RMB30 million (approximately \$4.37 million) with an annual interest rate of 6.57%. The loan was due in July 2008 and the interest is payable at the end of each month. The bank was repaid in April 2008.

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

We believe that our currently available working capital, after receiving the aggregate proceeds of our capital raising activities and the credit facilities referred to above and in our Annual Report on Form 10-K filed on March 10, 2008, should be adequate to sustain our operations at our current levels through at least the next twelve months.

### ***Obligations Under Material Contracts***

Below is a table setting forth our material contractual obligations as of June 30, 2008:

All amounts in millions of U.S. dollars

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 111.01	\$ 1.01	\$ --	\$ 110.00	\$ -
Operating lease obligations	0.88	0.54	0.31	0.03	-
Total	\$ 111.89	\$ 1.55	\$ 0.31	\$ 110.03	\$ -

### ***Recent Pronouncements***

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ) effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires an entity to provide enhanced disclosures about derivative instruments and hedging activities. The adoption of SFAS 161 is not expected to have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ), effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill. SFAS 141R also expands disclosure requirements for business combinations. The Company is currently evaluating the potential impact that the adoption of SFAS 141R will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ) effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The adoption of SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

### ***Critical Accounting Policies***

See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for a discussion of the Company's critical accounting policies.

### ***Seasonality***

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

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements.

**PART II**  
**OTHER INFORMATION**

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
<u>31.1</u>	<u>Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

**SIGNATURES**

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

DATED: December 5, 2008

**China Security & Surveillance Technology, Inc.**

By: /s/ Guoshen Tu  
Guoshen Tu  
Principal Executive Officer

By: /s/ Terence Yap  
Terence Yap  
Principal Financial Officer



## EXHIBIT INDEX

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