CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form 20-F
June 14, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended____

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to ______

OR

x **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of Event Requiring this Shell Company Report: September 12, 2005

Commission file number 000-50917

China Security & Surveillance Technology, Inc.
(Formerly Apex Wealth Enterprises Limited)
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

British Virgin Islands
(Jurisdiction of incorporation or organization)

4/F, East 3/B, Saige Science & Technology Park
Huaqiang, Shenzhen, China 518028
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	**None**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Common stock, US $0.01 par value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

21,558,000 shares of Common Stock, US $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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.
x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
o Large Accelerated Filer o Accelerated Filer x Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.
x Item 17 o Item 18

If this is an annual report, indicate by check mark whether the company is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes o No

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INTRODUCTION

China Security & Surveillance Technology Inc., formerly, Apex Wealth Enterprises Limited, a British Virgin Islands (“BVI”) corporation (the “Company”), was incorporated on April 8, 2002. On September 12, 2005, the Company acquired 50,000 shares of the issued and outstanding capital stock of China Safetech Holdings Limited, a BVI corporation (“Safetech”), constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of the Company’s common stock. As a result of the transaction, Safetech became a wholly owned subsidiary of the Company. On the same date, Whitehorse Technology Ltd., the largest shareholder of Safetech, purchased a total of 8,862,000 shares of the issued and outstanding common stock of the Company. Completion of these transaction (the “Reverse Acquisition”) resulted in a change in control of the Company. The Company changed its name to China Security & Surveillance Technology Inc. in February 2006.

Safetech is the registered beneficial owner of 100% of Golden Group Corporation (Shenzhen) Limited (“Golden”). Golden is a corporation incorporated in the People’s Republic of China (“PRC” or “China”) which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems.

The Company was a shell company prior to the Reverse Acquisition. Since, as a result of the Reverse Acquisition, the Company ceased to be a shell company, the Company is required pursuant to Rule 13a-19 under the Securities Exchange Act of 1934 (the “Exchange Act”) to disclose the information in this Form 20-F that would be required to be disclosed if it were registering securities under the Exchange Act within 4 days following the consummation of the Reverse Acquisition. The Company failed to timely file this report. However, we are now providing the required disclosure. The information provided below relates to the Company, together with its wholly owned direct subsidiary, Safetech, and its wholly owned indirect subsidiary, Golden, with respect to periods after the consummation of the Reverse Acquisition.

References to the Company with respect to periods prior to the date of the Reverse Acquisition relate to Golden, unless otherwise specifically indicated. References to “we,” “”us,” and “our” similarly refer to the Company. All currency below is in United States Dollars (“$” or “Dollars”), unless otherwise indicated. References to “Renminbi” or “RMB” mean Yuan Renminbi of the People’s Republic of China.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements reflecting the Company’s views with respect to future events and financial performance. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from the statements. These forward-looking statements are identified by, among other things, the words “anticipates,” “believes,” “estimates,” “expects,” “plans,” “projects,” “targets” and similar expre Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that may cause actual results to differ from those projected include the risk factors specified below.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Directors and Senior Management

Immediately prior to the Reverse Acquisition, the sole director and officer of CSST was Szetang Li. Upon the closing of the Reverse Acquisition, Mr. Li submitted his resignation letter pursuant to which he resigned from all offices of the Company that he then held, effective immediately, and from his position as our director, effective as of September 27, 2005, which was the tenth day following the Company's mailing to its stockholders of an information statement that complies with the requirements of Rule 14f-1 under the Securities Exchange Act of 1934. Mr. Li was replaced at that time by the directors named in the table below, who, except as indicated in the text that follows the table, remain the officers and directors of the Company. The business address of each such person is the address of the Company, 4/F, East 3/B, Saige Science & Technology Park, Huaqiang, Shenzhen, China 518028.

NAME	AGE	POSITION
Guoshen Tu	41	CEO and Director
Jinxu Wu	35	Chief Financial Officer
Yuehua Yang	40	Chief Technology Officer
Lingfeng Xiong	54	Director
Jianping Cui	35	Director
Yan Lam	28	Director
Xinghua Chen	41	Director

On January 13, 2006, Yuehua Yang resigned as Chief Technology Officer of the Company. On January 23, 2006, the Board of Directors appointed Yong Zhao, age 43, as the new Chief Technology Officer of the Company.

On January 23, 2006, Xinghua Chen resigned as a Director of the Company. On January 24, 2006, the Board of Directors appointed Jianguo Jiang, age 40, as a replacement director.

Effective as of February 27, 2006, Jianping Cui resigned as a member of the Company's board of directors. Effective as of February 28, 2006, the Board of Directors appointed Terence Yap Wing Khai, age 35, as a replacement director.

At the time of the Reverse Acquisition, the Company did not have, and the Company does not currently 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. The Company intends to establish an audit committee, a governance and nominating committee and a compensation committee of the board of directors as soon as is practicable. We envision that the audit committee will be primarily responsible for retaining our independent auditor and reviewing the services performed by our independent auditors, evaluating our accounting policies and our system of internal controls. The governance and nominating committee will be responsible for nominating directors to our board and will also be generally responsible for overseeing our corporate governance policies and practices. 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.

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The board of directors had not, at the time of the Reverse Acquisition, made a determination as to whether any member of the board of directors is an audit committee financial expert.

Each of the directors named above were elected or appointed as replacement directors to serve until the next annual meeting of the Company's stockholders or until their successors have been appointed or duly elected and qualified. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting.

Officers at the time of the Reverse Acquisition held their positions at the pleasure of the board of directors.

There was, at the time of the Reverse Acquisition, no arrangement or understanding between any of the directors or officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current directors to the Company's board. There are also no arrangements, agreements, or understandings between non-management shareholders and management under which non-management shareholders may directly or indirectly participate in or influence the management of the Company's affairs.

Auditors

Prior to the Reverse Acquisition, the Company's independent registered public accounting firm was PKF Certified Public Accountants, 26/F Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong ("PKF") while Golden's independent registered public accounting firm was Child, Van Wagoner & Bradshaw, PLLC, (formerly known as Child, Sullivan & Company), 1284 W. Flint Meadow Dr, Suite D, Kaysville, Utah 84037 ("Child Van Wagoner"). On February 2, 2006, the board of directors of the Company appointed GHP Horwath, P.C. to serve as the Company's independent registered public accounting firm for periods ended on or after December 31, 2005. As a result, on February 2, 2006, the Company notified PKF that they will no longer serve as the independent registered public accounting firm of the Company. In addition, on January 31, 2006, the Company notified Child Van Wagoner that they will no longer serve as the independent registered public accounting firm of Golden.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

On March 27, 2006, the Company announced that it had changed its fiscal year end from May 31 to December 31, consistent with the fiscal year end employed by Safetech and Golden prior to the Reverse Acquisition. Selected financial data for the Company for the twelve month periods ended December 31, 2003, and 2004, below, is derived from the audited financial statements of Golden, while the selected financial data for the twelve-month period ended December 31, 2005, below, is derived from the audited financial statements of the Company on a consolidated basis. Selected financial data for the Company for the twelve month periods ended December 31, 2001, and 2002, below, is derived from unaudited financial statements of Golden.

All currency referenced in this report refers to United States dollars unless otherwise indicated.

	2001	2002	2003	2004	2005
Revenues	$ 4,045,098	$ 10,330,847	$ 11,794,869	$ 16,055,704	$ 32,688,582
Income from operations	$ 302,445	$ 2,234,128	$ 3,262,057	$ 6,130,779	$ 7,478,842
Net Income	$ 257,078	$ 1,899,009	$ 2,752,123	$ 5,724,026	$ 7,265,957
Net Income from Operations Per Share	$ 0.018	$ 0.13	$ 0.19	$ 0.36	$ 0.40
Total Assets	$ 10,687,966	$ 13,581,661	$ 16,976,999	$ 22,008,920	$ 29,116,672
Total Current Liabilities	$ 1,766,061	$ 4,126,166	$ 5,900,469	$ 5,208,364	$ 4,504,926
Net Assets	$ 8,921,905	$ 9,455,495	$ 11,076,530	$ 16,800,556	$ 24,611,746
Weighted average shares	17,000,000	17,000,000	17,000,000	17,000,000	18,521,479
Total Equity	$ 8,592,637	$ 8,849,715	$ 11,076,530	$ 16,800,556	$ 24,611,746
Capital Stock (excluding long term debt and redeemable preferred stock)	17,000,000	17,000,000	17,000,000	17,000,000	18,521,479
Number of Shares	17,000,000	17,000,000	17,000,000	17,000,000	21,558,000
Dividends per Share	0	0	0	0	0
Basic & Diluted Net Income per Share	$ 0.015	$ 0.11	$ 0.16	$ 0.34	$ 0.39

Exchange Rate Information

We prepare our financial statements in Renminbi. This report contains translations of Renminbi amounts into U.S. dollars, and U.S. dollars into Renminbi. You should not assume that Renminbi amounts could actually be converted into U.S. dollars at these rates or at all.
Until July 20, 2005, the People's Bank of China had set and published daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The People's Bank of China also took into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The People's Bank of China announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investments, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

The noon buying rates in The City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York were US$1.00 to RMB 8.0245, on May 26, 2006. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars for each of the periods shown:

	Noon buying rate RMB per US$	
	High	**Low**
November 2005	8.0877	8.0796
December 2005	8.0808	8.0702
January 2006	8.0702	8.0596
February 2006	8.0616	8.0415
March 2006	8.0505	8.0167
April 2006	8.0248	8.0040
May 2006 (through May 26)	8.0255	8.0005

The following table sets forth the period-end noon buying rates and the average noon buying rates between Renminbi and U.S. dollars for each of 2001, 2002, 2003, 2004, 2005 and 2006 (through May 26) (calculated by averaging the noon buying rates on the last day of each month of the periods shown):

	Period-end noon buying rate RMB per US$	**Average noon buying rate RMB per US$**
2001	8.2766	8.2772
2002	8.2800	8.2772
2003	8.2767	8.2771
2004	8.2765	8.2768
2005	8.0702	8.1826
2006 (through May 26)	8.0245	8.0320

B. Capitalization and Indebtedness

Below is a statement of the capitalization and indebtedness (including indirect and contingent indebtedness) of the Company as of December 31, 2005, showing the company's capitalization on an actual basis:

Indebtedness	$	4,504,926
Shareholders' Equity		
Common Stock, par value $0.01; 100,000,000 shares authorized, 21,558,000 shares issued and outstanding		215,580
Additional paid-in capital		4,494,565
Retained earnings (loss)		18,552,610
Total Shareholders' equity and capitalization		24,611,746

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in the Common Stock of the Company involves a high degree of risk, related to our business, our industry, doing business in China and the market for our common stock. Any of the following risks could materially adversely affect the business, operating results and financial condition of the Company. You should consider these factors in conjunction with the other information contained in this report and the documents filed as exhibits hereto.

Risks Related to our Business

Due to the nature of our business, we do not have significant amounts of recurring revenues from our existing customers and we are highly dependent on new business development.

Most of our revenues derive from the installation of security and surveillance systems which are generally non-recurring. Our customers are mainly government entities, non-profit organizations and commercial entities (including airport, custom, hotel, real estate, bank, mine, railway, supermarket, and entertainment enterprises). We manufacture and install security systems for these customers and generate revenues from the sale of these systems to our customers and, to a lesser extent, from maintenance of these systems for our customers. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenues from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has several possible installation sites. Therefore, in order to maintain a level of revenues each year that is at or in excess of the level of revenues we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to grow our revenues and earnings from current levels or we may have lower levels of revenues and earnings in the future.

In order to grow at the pace expected by management, we will require additional capital to support our long-term business plan. If we are unable to obtain additional capital in future years, we may be unable to proceed with our long-term business plan and we may be forced to limit or curtail our future operations.

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

Our future success depends in part on attracting and retaining key senior management and qualified technical and sales personnel. We also face certain risks as a result of the recent changes to our management team.

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

Our growth strategy includes making acquisitions in the future, which could subject us to significant risks, any of which could harm our business.

Our growth strategy includes identifying and acquiring or investing in suitable candidates on acceptable terms. We recently completed the acquisition of the assets of Shenzhen Yuan Da Wei Shi Technology Limited. In addition, over time, we may acquire or make investments in other providers of product offerings that complement our business and other companies in the security industry.

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

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

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

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

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

· potential disputes with sellers of acquired businesses, technologies, services or products; and

· dilution to stockholders if we issue securities in any acquisition.

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

Our limited ability to protect our intellectual property may adversely affect our ability to compete.

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

We sometimes extend credit to our customers. Failure to collect the trade receivables or untimely collection could affect our liquidity.

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

If our subcontractors fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business may be harmed.

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

The Company and Safetech are BVI companies, while Golden is a PRC company, and all of the Company's officers and directors reside outside the United States. Therefore, certain judgments obtained against the company by its shareholders may not be enforceable in the British Virgin Islands or China.

Each of the Company and Safetech is a BVI company, while Golden is a PRC company. All of the Company's officers and directors reside outside of the United States. All or substantially all of its assets and the assets of these persons are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce against it or these persons the United States federal securities laws, or to enforce judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States, including the Securities Act of 1933 (the "Securities Act") and the Exchange Act.

Risks Related to Our Industry

Seasonality affects our operating results.

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

Our success relies on our management's ability to understand the highly evolving surveillance and security industry.

The Chinese surveillance and security industry is an immature and highly evolving industry. Therefore, it is critical that our management is able to understand industry trends and make good strategic business decisions. If our management is unable to identify industry trends and act in relation to such trends, our business will suffer.

If we are unable to respond to the rapid technological changes in our industry and changes in our customers' requirements and preferences, our business, financial condition and results of operation could be materially adversely affected.

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

- enhance our existing products and services;

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

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

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

We may not be able to maintain or improve our competitive position because of strong competition in the electronic security systems industry, and we expect this competition to continue to intensify.

The electronic security systems industry is highly competitive. There are about 9,000 companies in China that engage in the business of manufacturing, designing and building surveillance and security products. In addition, since China joined the World Trade Organization (“WTO”), we also face competition from international competitors. Some of our international competitors are larger than us and possess greater name recognition, assets, personnel, sales and financial resources. These entities may be able to respond more quickly to changing market conditions by developing new products and services that meet customer requirements or are otherwise superior to our products and services and may be able to more effectively market their products than we can because they have significantly greater financial, technical and marketing resources than we do. They may also be able to devote greater resources to the development, promotion and sale of their products than we can. Increased competition could require us to reduce our prices, result in our receiving fewer customers orders, and result in our loss of market share. We cannot assure you that we will be able to distinguish ourselves in a competitive market. To the extent that we are unable to successfully compete against existing and future competitors, our business, operating results and financial condition would be materially adversely affected.

Our business and reputation as a manufacturer of high quality surveillance and security equipment may be adversely affected by product defects or substandard performance.

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

Our product offerings involve a lengthy sales cycle and we may not anticipate sales levels appropriately, which could impair our profitability.

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

Risks Related to Doing Business in China

Economic, political, legal and social uncertainties in China could harm the Company's future interests in China.

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

- Level of government involvement in the economy;
- Control of foreign exchange;
- Methods of allocating resources;
- Balance of payments position;
- International trade restrictions; and

- International conflict.

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

The legal environment in China is uncertain and your ability to legally protect your investment could be limited.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign owned enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China and not of the U.S., and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for investors 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. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

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

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause 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.

Public health problems that may uniquely affect the Chinese population may disrupt our operations.

A renewed outbreak of SARS or another widespread public health problem in China, where our operations are conducted, could have a negative effect on our operations.

Our operations may be impacted by a number of other health-related factors, including the following:

- quarantines or closures of some of our offices which would severely disrupt our operations;
- the sickness or death of our key officers and employees; and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could damage our operations.

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.

The value of our securities will be affected by the foreign exchange rate between the United States 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 Company, as a foreign private issuer, has limited reporting requirements under the Securities Exchange Act of 1934, which makes it less transparent than a United States issuer.

As a foreign private issuer, the rules and regulations under the Exchange Act provide the Company with certain exemptions from the reporting obligations of United States issuers. The Company is exempt from the rules prescribing the furnishing and content of proxy statements, and its officers, directors and principal stockholders are exempt from the reporting and short-swing profit recovery provisions. Also, the Company is not required to publish financial statements as frequently, as promptly or containing the same information as United States companies. The result is that the Company will be less transparent than a U.S. issuer.

Our common stock is quoted only on the OTC Bulletin Board, which may have an unfavorable impact on our stock price and liquidity.

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

We are subject to penny stock regulations and restrictions.

The SEC has adopted regulations which generally define so-called “penny stocks” to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. As of May 31, 2006, the closing bid and asked prices for our common stock were $6.1 per share. Although our share price is currently above the penny stock level, there is no assurance, given the volatility of the OTC market, that the company share price can be maintained above the penny stock level all the time. Although since September 2005, we have met the net worth exemption from the “penny stock” definition, no assurance can be given that such exemption will be maintained. As a “penny stock”, our common stock may become subject to Rule 15g-9 under the Exchange Act of 1934, or the “Penny Stock Rule.” This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

One of our stockholders holds a significant percentage of our outstanding voting securities.

Mr. Guoshen Tu, who is our Chief Executive Officer and a Director, owns approximately 56% of our outstanding voting securities. As a result, he possesses significant influence, giving him the ability, among other things, to elect a majority of our Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer, all of which may prevent us from implementing our business strategies.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

The Company was incorporated in the BVI on April 8, 2002 as a corporation under the International Business Companies Ordinance of 1984. Prior to the Reverse Acquisition, which was consummated on September 12, 2005, the Company was a development stage enterprise and had not yet generated any revenues. Prior to the Reverse Acquisition, the Company provided business advisory and management consulting services in greater China, initially concentrating on the Hong Kong market. The focus of these services was on small to medium size enterprises.

From and after the Reverse Acquisition, the Company’s business became the business of our indirect, wholly-owned subsidiary, Golden. Golden is a corporation incorporated in the PRC which is engaged in the business of manufacturing, distributing, installing and maintaining security and surveillance systems. Golden was organized in the PRC in January 1995. The Company is headquartered in Shenzhen, China.

On October 25, 2005, the Company and Golden entered into an agreement (“Acquisition Agreement”) with the equity owners of Shenzhen Yuan Da Wei Shi Technology Limited (“Yuan Da”) to acquire the business effective December 31, 2005. Such Acquisition Agreement was amended in April and May 2006. Yuan Da is a limited liability company established in Shenzhen and was principally engaged in the sales and development of security and surveillance systems. Under the Acquisition Agreement, as amended, the purchase price consisted of (i) a cash payment of approximately $125,000 (RMB 1,000,000) and (ii) the issuance of 200,000 unregistered shares of common stock of the Company valued at $500,000 (based upon the average closing market price during the twenty days before the date of the agreement).

In February 2006, the Company changed its name to China Security and Surveillance Technology Inc. Its principal place of business is located at the 4/F, East 3/B, Saige Science & Technology Park, Huaqiang, Shenzhen, China 518028. The phone number for its principal place of business is (86) 755-83765666. The Company has not appointed an agent for service of process in the United States.

The Company’s common stock is quoted on the Over-The-Counter Bulletin Board in the United States under the symbol “CSSTF.OB”.

Reverse Acquisition with Safetech

On September 12, 2005, the Company acquired 50,000 shares of the issued and outstanding capital stock of Safetech, constituting all of the issued and outstanding capital stock of Safetech. The 50,000 shares of Safetech were acquired from the individual shareholders of Safetech in a share exchange transaction in return for the issuance of 8,138,000 shares of common stock of the Company. As a result of this transaction, Safetech became a wholly-owned subsidiary of the Company, and Golden became an indirect wholly-owned subsidiary of the Company. Completion of the transaction resulted in a change in control of the Company.   After the transaction, the Company was no longer a shell company. The contracts relating to this transaction have been filed as exhibits to the Company’s report on Form 6-K that was filed with the SEC on July 22, 2005 and incorporated herein by reference.

Upon the closing of the Reverse Acquisition, the sole director of the Company, Szetang Li, submitted his resignation letter pursuant to which he resigned from all offices of the Company that he then held, effective immediately, and from his position as our director, effective as of September 27, 2005, which was the tenth day following the Company’s mailing to its stockholders of an information statement that complies with the requirements of Rule 14f-1 under the Securities Exchange Act of 1934.

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

Business Overview

Through Golden, the Company is engaged in the business of the manufacturing, distributing, installing and maintaining security and surveillance systems. Our customers are located throughout China.

Golden’s customers are mainly government entities, non-profit organizations and commercial entities. Golden’s marketing network divides China into nine geographic regions. Golden has 33 branch offices. Golden derives most of its revenues from the installation of security and surveillance system as well as the sales of products including embedded digital video recorders, PC digital video recorders, mobile digital video recorders, digital cameras and auxiliary apparatus.

The Company has established a partnership with Beijing University to conduct its research and development.

Opportunities for Growth

Currently, there are a number of formal and planned regulatory drivers which the Company believes offer significant growth opportunities. These include the estimated $6 billion to $12 billion that the Chinese government expects to spend for security infrastructure in preparation for the 2008 Olympics, along with the planned investment by Shanghai for the 2010 Worlds Fair. In addition, several ordinances have been passed by the Chinese government which require security surveillance systems to be installed in: (1) 660 cities throughout China for street surveillance; (2) all entertainment locations starting from March 1, 2006; (3) all Justice Departments and Courts; and (4) all coal mines in China (currently estimated at 28,000) by the end of 2008.

The company is actively pursuing near-term acquisition prospects and other strategic opportunities, including a proposed acquisition of a China-based security software company and a China based surveillance company. Also, we are required under a securities purchase agreement with certain accredited investors, dated April 4, 2006, to acquire four companies controlled by Mr. Tu, our CEO and director, which are engaged in the business of manufacturing and distributing security and surveillance products. We expect these acquisitions to occur in or about October 2006. Mr. Tu has verbally agreed to contribute his equity interests in these companies without consideration. Please see Item 7 “-Majority Shareholders and Related Party Transactions.” As of June 8, 2006, the Company has not signed binding agreements relating to such potential acquisitions, although it is in active negotiations with respect to two potential acquisitions.

Our Industry

The Chinese surveillance and security industry was established at the beginning of the 1980s and the surveillance and security products were used primarily by government agencies, financials institutions, transportation and mega-size companies. Since then, the industry experienced significant growth and is growing at an annual rate of approximately 40%, according to the China Public Security Guide published by the Chinese Security and Protection Association**,** which also predicts that the industry will growth annually by 20-30% in the near future and the Chinese market for security and surveillance products and services will reach RMB 1 trillion by 2020.

In 2006, the Chinese government promulgated Ordinance 458 which requires all entertainment locations to install surveillance systems. In addition, the booming Chinese real estate market and the increasing focus on the security of the Chinese mining industry provide great opportunities for the surveillance and security industry.

At present, video surveillance is estimated to have a market of about RMB 60 billion and accounts for about 40% market share of the surveillance and security market. It is expected that the video surveillance market share will increase to approximately 60% of the whole industry, according to the China Public Security Guide published by the China Security and Protection Association.

Our Strategy

Our primary business strategy is to achieve annual growth in revenue by building our brand and reputation. We intend to focus significant efforts on promoting our brand and improve our brand recognition.

Our research and development efforts are aimed at finding new varieties of products, improving existing products, improving overall product quality and reducing production costs. We cooperate with Beijing University and have established a joint lab for the research of video surveillance technology. Our research and development efforts are led by Dr. Yong Zhao, who worked for the R&D department of a large international surveillance and security company and has extensive research experience.

In addition, Shenzhen is one of the biggest and most concentrated bases for electronic products in China. We are headquartered in Shenzhen, which allows us to take advantage of the resources of Shenzhen's numerous electronic product manufacturers and benefit from economies of scale.

Over the last several years, we have established one of the largest surveillance and security product distribution networks in China. Our distribution network covers nine regions and includes 33 branches, which allows us to provide timely services and specially tailored solutions to our customers throughout China.

Our growth strategy also includes identifying and acquiring businesses engaged in similar or complementary industries. However, we may not be able to consummate any additional acquisitions and any businesses that we do acquire may not be successful. In addition, the acquisition of a business through the issuance of our securities, which is the most likely consideration for any acquisition that we pursue, will result in dilution to our existing stockholders.

Products and Services

We engage in the business of manufacturing, distributing, installing and maintaining surveillance and security products.

Installation Services

We currently derive approximately 90% of our revenues from the supply and installation of security and surveillance systems for various projects involving railways, schools, banks, highways, commercial buildings, public security and government entities, among others. Generally, our installation projects involve the following steps:

Bidding

We receive most of our installation projects through a bidding process. In a typical bidding process, our potential client will send us and our competitors a request for proposal that outlines the work to be performed and the specifications of the equipment to be installed. We then prepare and submit our bid and the potential client chooses the winning contractor from among all the bids submitted. On some projects, we also act as a subcontractor where a third party has submitted a winning bid.

System Design

Upon winning a project, we provide the final project design for approval. System design is generally conducted through the join efforts of our R&D personnel, sales department, project service department and quality control department.

Purchase of Security and Surveillance Products

The major products used in our installation projects include computer accessories, decoders, video capture cards, recorders and computer cases. We use equipment manufactured by us in most of the installation projects, but also use products from other manufacturers. Generally, approximately 60% of the equipment used in any given project is equipment manufactured by us.

Installation

We have a project service department which performs installations. We use subcontractors for non-technical labor intensive work. We usually assign a project group with 5-10 members who are in charge of the technical components of the project and manage the progress of each project.

System Software Design and Integration

System software design and integration services are usually conducted by our technical department. We design software for our customers’ security and surveillance systems in accordance with our customers’ specifications. We generally test the software on our own computer system before integrating it into our customer’s computer system. We then assign our technicians to the site of each project to assist the integration of the security and surveillance system with our customers’ computer system.

Testing

Upon integration, our technical department will test and examine the system to ensure the proper function of the installed security and surveillance system.

Our Products

Approximately 10% of our revenues derive from sales of our products, excluding products sold in connection with the installation projects described above. We manufacture the key components of the security and surveillance products, and rely on third party electronic assembling companies to assemble the final products utilizing our technology. The final products are sold under our brand names. Our main products include embedded digital video recorders, PC digital video recorders, mobile digital video recorders, digital cameras and auxiliary apparatus.

Embedded digital video recorders (Embedded DVR)

The Embedded DVR stores digital images captured via the security cameras. It also controls the recording functions of the cameras and manages the storage of the data. This product has a pre-installed Golden surveillance software system which will enable it to perform access control and recording functions. It also has an upgradable hard drive which will allow clients to customize the digital storage capacity, network server functions which will allow the clients to access the digital images via Internet, MPEG-4 video compression which will allow a more efficient compression of the images and higher image quality and 4-16 signal input channels which will allow 4 to16 cameras to be connected to the Embedded DVR. This product has the competitive features of small size, low cost and high reliability. The targeted markets for this product are small to medium size businesses, non-profit organizations and home use. It is suitable for small sized security and surveillance needs.

PC digital video recorders (PC DVR)

Similar to the Embedded DVR, the PC DVR provides recording and compression functions. It has pre-installed Golden surveillance software system, upgradable hard drive, network server function, MPEG-4 Video compression method and 4-36 signal input channels and uses Windows operating system. The main difference is that the PC DVR has expanded capacity to accommodate recording functions for a greater number of cameras compared to the Embedded DVR. In addition, it is operated via Microsoft's Windows Operating System. The targeted markets for this products are large projects and community security projects.

Mobile digital video recorders (Mobile DVR)

Similar to the Embedded DVR, the Mobile DVR is smaller in size and has a maximum of 4 ports. The Mobile DVR, which can be installed in a vehicle, enables recording of digital video images within the cabin. This product is easily installed, supports GPS/GPRS and has 1 to 4 signal input channels and MPEG-4 video compression. The targeted markets for this product are the transportation industry and governmental agencies.

Digital Camera

Digital cameras can be easily installed within the customer's site. The range of cameras that we produce and sell include color Charge Coupled Device ("CCD") cameras, indoor color CCD dome cameras, color/black and white CCD flying saucer cameras, Infra Red CCD multi-function cameras, mini Digital Signal Processing ("DSP") cameras, indoor stand alone sphere CCD cameras and network high speed sphere CCD cameras.

<u>*Auxiliary apparatus*</u>

Auxiliary apparatus includes DVR compression cards, decoders, alarm notification switches, digital video fiber optics systems and matrix switch/control systems.

As discussed in more details in Item 7, we plan to acquire Shenzhen Golden Guangdian Technology Co. Ltd. ("Shenzhen Guangdian") in or about October 2006. Our Chief Executive Officer, Mr. Tu, has verbally agreed to contribute his 60% equity interest in Shenzhen Guangdian to the Company without consideration. Shenzhen Guangdian is a manufacturer and distributor of security and surveillance system products. The addition of Shenzhen Guangdian will significantly improve the manufacturing capacity and sales of the above products.

Distribution and Marketing

We have developed a multi-tiered marketing plan, allowing us to effectively market products and services to our clients. We sell most of our products and services through our own distribution network. Our distribution network covers all of China.

We have approximately 160 engineers and sales personnel. We divide our market into 9 geographic regions and have 33 branch offices in provincial capital cities throughout China. Each region is managed by a regional manager, who is responsible for technical support and management within the region as well as client relations. Golden also utilizes four other companies controlled by Mr. Guoshen Tu, our CEO and director, as distributors. We will acquire these four companies in or about October 2006. Mr. Tu has orally agreed to contribute his equity interests in these four companies to the Company without consideration. Please see Item 7 "- Major Shareholders and Related Party Transactions" for more details.

In addition to our own branch offices and employees, we also cooperate with independent sales agents and have established close relationships with these sales agents in order to take advantage of their regional resources and provide products and services that are tailored to the needs of our customers in those regions.

Through this distribution and marketing network, we believe we can continue to promote our brand recognition, strengthen the management of our distribution network and improve our sales revenue and market share.

We have also been marketing and promoting our products through the following means:

- Participating in various industrial shows to display our products;
- Advertising in industrial magazines and periodicals to introduce and promote our products;
- Publishing our own magazine which is distributed to our suppliers and sales agents so that they can better understand our company and strengthen their confidence in us; and

· Utilizing the Internet to promote our products, such as the public safety network, Chinese Security Association network and HuiChong Network.

Seasonality

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

Customers

Our customers are mainly government entities (customs agencies, courts, public security bureaus and prisons), non-profit organizations (including schools, museums, sports arenas and libraries) and commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets, hospitals and entertainment venues), which account for approximately 40%, 20% and 40% of our sales revenues, respectively.

Our revenues are not concentrated in any one customer or group of customers because a large portion of our sales revenue derives from the installation of projects. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenues from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has several possible installation sites. In addition, we have 33 branch offices all over China and we do not rely on customers located on one particular geographic area. As a result, in order to maintain a level of revenues each year that is at or in excess of the level of revenues we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to grow our revenues and earnings from current levels or we may have lower levels of revenues and earnings in the future.

Raw Materials

We use manufactured electronic components in our products. The main components of our products include camcorders, monitors, frames, decoders, lenses, outdoor hoods and digital video recorder (“DVR”).

Shenzhen is one of the biggest and most concentrated bases for electronic products in China. As a result, there are numerous suppliers and vendors of the components needed for our products. Because of the fierce competition among the suppliers, the prices of our principal components are not volatile and we are able to purchase these raw materials at reasonable prices. We have entered into written contracts with several suppliers and vendors. Our main suppliers are Shenzhen Ronghen Co. Ltd., Shenzhen Dongxun Shidai Technology Co. Ltd., Shenzhen Kerui Electronic Co. Ltd., Shenzhen Huichuang Computer Technology Co. Ltd. and Shenzhen Jingfeiya Electronic Co. Ltd. We believe we are not dependent on any of these suppliers and will be able to replace them, if necessary, without material difficulties.

Our Competition

There are many companies in China engaged in the business of manufacturing surveillance and security products and designing and installing security and surveillance systems. The surveillance and security industry in China is still an immature industry and no company has monopolized the industry. In the surveillance and security industry, it is difficult for very large companies to reap benefits from their size, because most of the projects require the product to be specially tailored to meet customers' individual requirements.

In the security and surveillance industry, we compete based upon price, product quality, ability to distribute products, and ability to provide after sales service.

Our major competitors in China are Hangzhou Haikang Weishi Digital Technology Co. Ltd. and Shanghai Chenfeng Digital Technology Co. Ltd. Hangzhou Haikang Weishi Digital Technology Co. Ltd. focuses on the development of video and audio decoding technology and the development and manufacture of digital video compression cards. Its most successful product is a digital video compression card which accounts for approximately 50% of the market share. Shanghai Chenfeng Digital Technology Co. Ltd. manufactures a broad range of products and has good market recognition for its system software.

Another group of competitors are international competitors. Some of our international competitors are larger than us and possess greater name recognition, assets, personnel, sales and financial resources. However, these competitors generally have higher prices for their products and most of them do not have strong distribution networks in China.

We believe that the range of our product and service offerings, our brand recognition by the market, relatively low labor cost and our distribution channels enable us to compete favorably in the market for the security and surveillance products and services that we offer in China.

Regulation

All security and surveillance products produced in China must satisfy testing by the China Public Security Bureau, and manufacturers of such products must receive the Security Technology Protection Product Manufacturing Permit from the provincial agency. The Company satisfactorily completed this testing in 2002 and also has received a permit from Guangdong province in May 2003. In addition, the Company also has a license from the Guangdong province for the design, installation and repair of security protection systems.

We believe that we are in material compliance with all registrations and requirements for the issuance and maintenance of all licenses required by the governing bodies, and that all license fees and filings are current.

Intellectual Property

We have registered with the Trademark office of the State Administration for Industry and Commerce of China the following trademarks:

	Name	Trademark No.	Type	Expiration Date	Status
1	Golden Group	4108508	Word (Chinese)	July 2014	Approved
2	DVR	4108509	Word	July 2014	Approved
3		4108511	Word and Logo	July 2014	Approved
4		4108510	Logo	July 2014	Approved
5		3814725	Word and logo	December 2013	Approved
6	JDR	N/A	Word	N/A	Pending

In addition, our subsidiary Golden has registered the domain name www.goldengroup.cn.

The Company holds no patents under its own name. The Company protects its trade secrets through confidentiality provisions employment contracts it enters into with its employees. In addition, engineers of the Company are generally divided into different project groups, each of which generally handles only a portion of the project. As a result, any one engineer generally has no access to the entire design process and documentation.

Organizational Structure

The Company, a BVI company, owns all of the issued and outstanding shares of China Safetech Holdings Limited, a BVI company. Safetech owns all of the issued and outstanding shares of Golden, a corporation incorporated in the People's Republic of China. Golden is the sole operating subsidiary of the Company.

Property, Plant, and Equipment

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 have land use rights to approximately 119,245 square meters consisting of manufacturing facilities and office buildings in various parts of China, including Shenzhen and Jiangxi province. We have fully paid the land use fees. The chart below lists all of facilities owned by us.

Location	Type of Facility	Size of the Land (Square Meters)	Size of the Building (Square Meters)
Shangtian, Taihe County, Jiangxi Province	Manufacturing	64,533	45,877.5
No. 45 Jifu Road, Jiangxi Province	Manufacturing	28,592.66	5,224.34
Jishui County, Jiangxi Province	Manufacturing	24,866.52	10,404.67
4th Floor, Building 3, Shaige Technology Park, Futian District, Shenzhen	Office and Manufacturing	1,252.47	1,252.47
Total		119,244.65	62,758.98

In addition, in April 2006, we entered into a lease agreement with Shenzhen Huiye Technology Co. Ltd. ("Huiye") pursuant to which we lease 3,288 square meters of office space and manufacturing facilities from Huiye. The lease has a two-year term which runs from April 16, 2006 to April 15, 2008. The rent is free from April 16, 2006 to June 15, 2006. Thereafter, the monthly rent will be approximately $1.38 (RMB 11) per square meter.

We believe our property is sufficient to meet our current needs. As our business expands, we will consider acquiring additional property rights.

Legal Proceedings

From time to time, the Company has disputes that arise in the ordinary course of its business. Currently, there are no material legal proceedings to which the Company is a party, or to which any of their property is subject, that will have a material adverse effect on the Company's financial condition.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We manufacture, distribute, install and service security and surveillance products and systems. We generate revenues from the sale of products to, the installation of our products for, and the delivery of after sales/installation services to, our customers. Our customers are mainly government entities (customs, courts, public security bureaus and prisons), non-profit organizations (including schools, museums, sports arenas and libraries) and commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets, hospitals and entertainment venues), which account for approximately 40%, 20% and 40% of our sales revenues, respectively.

Our revenues are not concentrated in any one customer or group of customers because a large portion of our sales revenue derives from the installation of projects. After we have manufactured and installed a system at any particular customer site, we have generated the majority of revenues from that particular client. We would not expect to generate significant revenues from any existing client in future years unless that client has several possible installation sites. In addition, we have 33 branch offices all over China and we do not rely on customers located on particular geographic areas. As a result, in order to maintain a level of revenues each year that is at or in excess of the level of revenues we generated in prior years, we must identify and be retained by new clients. If our business development, marketing and sales techniques do not result in an equal or greater number of projects of at least comparable size and value for us in a given year compared to the prior year, then we may be unable to grow our revenues and earnings from current levels or we may have lower levels of revenues and earnings in the future.

Material Opportunities and Challenges

Regulations promulgated by governmental agencies in China relating to security and surveillance often create opportunities for us. Currently, there are a number of formal and planned regulatory drivers which the Company believes offer significant growth opportunities. These include the estimated $6 billion to $12 billion that the Chinese government expects to spend for security infrastructure in preparation for the 2008 Olympics, along with the planned investment by Shanghai for the 2010 World Fair. In addition, several ordinances have been passed by the Chinese government which require security surveillance systems to be installed in: (1) 660 cities throughout China for street surveillance; (2) all entertainment locations starting from March 1, 2006; (3) all Justice Departments and Courts; and (4) all coal mines in China (currently estimated at 28,000) by the end of 2008.

The company is actively pursuing near-term acquisition prospects and other strategic opportunities, including a proposed acquisition of a China based security software company and a China based surveillance company. Pursuant to a securities purchase agreement with certain accredited investors, dated April 4, 2006, we will acquire four China-based companies which are engaged in the businesses of manufacturing and distributing security and surveillance products that are controlled by Guoshen Tu, our CEO and director, in or about October 2006. Mr. Tu has verbally agreed to contribute his equity interests in these four companies to the Company without consideration. As of June 8, 2006, the Company has not signed any binding agreements relating to such potential acquisitions, although it is in active negotiations with respect to two potential acquisitions.

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

We believe that in order to compete effectively in this market, we need to constantly improve the quality of our products and deliver new products. As such, we face the challenge of expanding our R&D capacity. We need to maintain a strong and sufficient R&D team and identify the right directions for our research and development.

We also face the long-term challenge of maintaining our rapid growth. In addition to maintaining the growth of our existing business, the Company will also employ an acquisition strategy to ensure growth in future years.

A. Operating Results

Fiscal Years Ended December 31, 2005 and 2004

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

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

	Year Ended December 31,			
Item	**2005**	**2004**	**Increase (Decrease)**	**% Increase (% Decrease)**
Revenue	32.69	16.06	16.63	103.55%
Cost of Goods Sold	23.47	8.80	14.67	166.70%
Gross Profit	9.22	7.26	1.96	27.00%
Operating Expenses	1.74	1.14	0.60	52.63%
Other Income (expense)	0.57	0.47	0.10	21.28%
Provision for Taxes	0.78	0.87	0.09	10.34%
Net income	7.27	5.72	1.55	27.10%

Fiscal Year Ended December 31, 2004 and 2003

The following table summarizes the results of the Company's operations during the fiscal years ended December 31, 2004 and 2003 and provides information regarding the dollar and percentage increase or (decrease) from the 2003 fiscal period to the 2004 fiscal period:

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

	Year Ended December 31,			
Item	**2004**	**2003**	**Increase (Decrease)**	**% Increase (% Decrease)**
Revenue	16.06	11.79	4.27	36.22%
Cost of Goods Sold	8.80	7.58	1.22	16.09%
Gross Profit	7.26	4.21	3.05	72.45%
Operating Expenses	1.14	0.95	0.19	20.00%
Other Income (expense)	0.47	0.007	0.46	6614.28%
Provision for Taxes	0.87	0.52	0.35	67.31%
Net income	5.72	2.75	2.97	108.00%

Revenue

Revenue for the year ended December 31, 2005 increased by 103.55% to $32.69 million against $16.06 million for the prior year. The substantial increase in revenue is mainly attributable to the Company's increased marketing efforts, the increased brand recognition of our services and products and the growth of the Chinese security and surveillance market.

Revenue for the year ended December 31, 2004 increased by 36.22% to $16.06 million against $11.79 million for 2003. Such increase is mainly due to the growth of the Chinese security and surveillance market and public's increased awareness of the importance of having security and surveillance systems.

Components of Revenues

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

All amounts in millions of U.S. dollars

Revenue	**2005**	**2004**	**2003**
Project income from supply and installation of security and surveillance equipment	30.56	15.53	10.06
Outright sale of security and surveillance equipment	2.13	0.53	1.73

Income from installation projects contributed approximately 90% of the total revenue in each of 2003, 2004 and 2005. Management believes that revenues from the installation projects will continue to be the Company's major revenue source. With the Company putting more resources into research and development of products and the planned acquisition of Shenzhen Guangdian, management believes that the percentage of revenue from the outright sale of products will increase in the future and will constitute approximately 40% of the total revenue by the end of 2006.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2005 increased by 166.70% to $23.47 million against $8.80 million for the prior year. Such increase was mainly attributable to the increase of sales revenue.

Gross profit margin decreased from 45.21% for the year ended December 31, 2004 to 28.19% for the year ended 31 December 2005. This was mainly attributable to the increased competition and the Company's strategic decision in taking some projects that had a lower profit margin, but were important for gaining market share for the Company.

Cost of goods sold for the year ended December 31, 2004 increased by 16.09% to $8.80 million against $7.58 million in 2003. The increase was generally in line with the revenue increase.

Gross profit margin increased from 35.73% for the year ended December 31, 2003 to 45.21% for the year ended December 31, 2004 which was mainly attributable to the increase in our brand recognition which allowed us to have higher profit margins.

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

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

Cost Item	**2005FY**	**2004FY**	**2003FY**
Salary	1.09	1.01	0.25
Percentage	4.64%	11.48%	3.30%
Purchase	22.38	7.79	7.33
Percentage	95.36%	88.52%	96.70%
Total	100%	100%	100%

Selling and Marketing Expenses

Selling and marketing expenses were $0.29 million for the year ended December 31, 2005, a $0.10 million decrease as compared to $0.39 million for the year ended December 31, 2004. The Company started building branches in provincial cities in China in the fiscal year of 2003 and incurred large costs in connection with setting up these branches. All of our branch offices were set up by the end of 2004. As a result, selling and marketing expenses decreased in 2005.

Selling and marketing expenses were $0.39 million for the year ended December 31, 2004 as compared to $0.50 million for the year ended December 31, 2003. The $0.11 million decrease in the selling and marketing expenses was mainly attributable to the larger costs incurred in connection with the initial setting up of the branches in 2003. Such expenses decreased in 2004.

General and Administrative Expenses

General and administrative expenses were $1.18 million for the year ended December 31, 2005 as compared to $0.51 million for the year ended December 31, 2004. We believe such increase was generally in line with the increase in revenue. General and administrative expenses consist of mainly salaries, office utility expenses and other daily office expenses.

General and administrative expenses were $0.51 million for the year ended December 31, 2004 as compared to $0.32 million for the year ended December 31, 2003. Such increase was mainly attributable to the increase in daily office expenses resulted from the expansion of our business.

Finance Costs

We did not incur finance costs in 2003, 2004 and 2005, as we had no bank loans during these periods.

Income taxes

The Company incurred income taxes of $0.78 million for the year ended December 31, 2005, a decrease of 10.34% against the $0.87 million for the year ended December 31, 2004. The Company incurred a tax expense of $1.37 million in fiscal year 2005 due to higher revenue and profits in fiscal year 2005. However, $589,601 of the paid tax was treated as net deferred tax assets. As a result, a $0.78 million income tax was recorded after deducting the $589,601 from the actually paid tax of $1.37 million.

The Company incurred income taxes of $0.87 million for the year ended December 31, 2004, an increase of 67.31% against $0.52 million for the year ended December 31, 2003. Such increase was mainly attributable to the higher revenue and the $0.48 million rental income the Company received from its related parties, namely Jiangxi Golden Digital Technology Co. Ltd., Jiangxi Golden Motuo C