

UNIPRO FINANCIAL SERVICES INC

Form 8-K

November 02, 2006

Table of Contents

---

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

### FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 27, 2006

---

## UNIPRO FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in Charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

000-50491  
(Commission File No.)

65-1193022  
(IRS Employee Identification No.)

31200 Via Colinas, Suite 200

Westlake Village, CA 91362

(Address of Principal Executive Offices)

(818) 597-5772

(Issuer Telephone number)

---

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

.. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form 8-K

- “ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - “ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - “ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

---

## Table of Contents

### **Safe Harbor Statement**

In addition to historical information, this document contains forward-looking statements regarding business prospects, financial trends and accounting policies that may affect our future operating results, financial position and cash flows. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as will, anticipate, estimate, expect, project, intend, plan, believe, target, forecast and other words and terms in connection with any discussion of future operating or financial performance. In particular, they include statements relating to future actions, prospective products and services, future performance or results of current and anticipated products and services, sales efforts, capital expenditures, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

These statements are based on our assumptions and estimates and are subject to risks and uncertainties. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

There are possible developments that could cause our actual results to differ materially from those forecast or implied in the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which are current only as of the date of this filing. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Item 1.01 Entry into a Material Definitive Agreement.**

(a) On October 27, 2006, the Company entered into and closed a Securities Purchase Agreement ( SPA ) with China Fire Protection Group, Inc., a limited liability company organized under the laws of the British Virgin Islands ( China Fire ) and certain Investors (the Investors ). Under the SPA, the Company sold (i) an aggregate of 1,538,604 shares of Common Stock (the Common Stock ), at a purchase price of \$3.25 per share, (ii) Series A Warrants exercisable until October 27, 2011 to acquire an aggregate of 307,721 shares of Common Stock (subject to customary adjustments) at an exercise price of \$3.58 per share ( Series A Warrants ) and (iii) Series B Warrants exercisable until October 27, 2011 to acquire an aggregate of 307,721 shares of Common Stock (subject to customary adjustments) at an exercise price of \$4.88 per share ( Series B Warrants ). Under the SPA, certain Investors received the right to purchase, before December 11, 2006, an aggregate of 923,077 shares of Common Stock (subject to customary adjustments) at \$3.25 per share and an aggregate of 184,615 Series A Warrants and 184,615 Series B Warrants. In connection with the SPA, the Company granted to H.C. Wainwright & Co., Inc., the placement agent, warrants to purchase 115,395 shares at \$3.25 per share and expiring on October 26, 2011.

In connection with the SPA, on October 27 2006, the Company entered into a Registration Rights Agreement with the Investors ( Investor RRA ). Under the Investor RRA, the Company must prepare and file with the Securities and Exchange Commission ( SEC ) a registration statement for the resale of the Common Stock issued and issuable to the Investors and to use its best efforts to cause, and to maintain, the effectiveness of the registration statement. The Company is subject to certain monetary obligations, to Investors if, among other reasons, the registration statement is not effective by 150 days after October 27, 2006. The obligations are payments in an amount equal to 2.0% of the aggregate amount invested by each such Investor (based upon the number of Registrable Securities (as defined) then owned by such Investor) and an amount equal to 1.0% of the aggregate amount invested by such Investor (based upon the number of Registrable Securities then owned by such Investor) for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective, up to a maximum amount of 24%.

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

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form 8-K

(b) In connection with a Securities Exchange Agreement dated September 1, 2006, by and among the Company and certain shareholders of the Company, ( Securities Exchange Agreement ) the Company granted registration rights to certain shareholders ( Shareholder RRA ). Under the Shareholder RRA, the shareholders were granted piggyback rights with respect to the registration statement to be filed under the Investor RRA for 1.2 million shares of Common Stock. The shareholders will be able to force the Company to buy back the shares at \$3.25 if the registration statement is not effective within one year of October 27, 2006.

### **Item 2.01 Completion of Acquisition or Disposition of Assets.**

(a) (d)

(i) On October 27, 2006, the Company acquired 100% of the equity interests in China Fire Protection Group, Inc., a limited liability company organized under the laws of the British Virgin Islands ( China Fire ) from the shareholders of China Fire in exchange for 701,538.46 shares of the Company's Series A Convertible Preferred Stock ( Convertible Stock ). The Convertible Preferred Stock will automatically be converted to 22,800,000 shares of Common Stock when an amendment to the Articles of Incorporation increasing the number of authorized shares of Common Stock, which has already been adopted by shareholders acting by consent, becomes effective. The Convertible Stock issued to the shareholders of China Fire constitutes 80.5% of the outstanding stock as of October 27, 2006 on a fully diluted basis. The directors and officers of China Fire became the directors and officers of the Company. The share exchange is referred to in this 8-K as the Share Exchange. On July 19, 2006, China Fire, which was newly organized, acquired all of the outstanding shares of Sureland Industrial Fire Safety Limited. ( Sureland ), a Chinese company located in Beijing, China

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

The transaction contemplated by Securities Exchange Agreement dated September 1, 2006 between the Company and China Fire Protection Group Inc. did not require the Company, China Fire, or China Fire's subsidiaries or shareholders in China to obtain the CSRC approval since China Fire Protection Group Inc. completed the acquisition of all the equity interests in both Sureland Industrial Fire Safety Limited and Sureland Industrial Fire Equipment Co., Ltd. before September 8, 2006 when the New M&A Rule became effective. There are, however, uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the NEW M&A Rule.

(ii) On October 27, 2006, the Company, in connection with the SPA received gross proceeds \$5,000,463.73 in exchange for 1,538,604 shares of Common Stock, 307,721 Series A and 307,721 Series B Warrants and the options to purchase additional shares and additional Series A and Series B warrants. For more information, see Item 1.01.

(f) The Registrant is using Alternative 3 in Form 10SB. The Item references below are to the items in Form 10SB

### **Item 1. Description of Business**

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

## **Table of Contents**

manufacturing products for the export market and we have begun to provide a fire safety system for a Chinese company operating abroad.

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

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

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

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

## **RISK FACTORS**

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

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

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

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

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

## **Table of Contents**

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

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

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

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

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

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

rapid technological change; and

the highly competitive nature of the industrial fire safety industry.

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

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

## **Table of Contents**

competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us.

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

***We receive a significant portion of our revenues from a small number of customers. Our business will be harmed if our customers reduce their orders from us.*** A significant amount of our revenues are derived from only a small number of customers mainly in the iron and steel, power and petrochemical industries. Although no customer individually accounted for more than 15% of our revenues for the fiscal year ended December 31, 2005 in the aggregate, our five largest customers in services and products businesses accounted for approximately 51% and 35% of our revenues from these segments in fiscal 2005, respectively and 51% and 39% of our revenues for the six months ended June 30, 2006 respectively. Dependence on a few customers could make it difficult to negotiate attractive prices for our products and could expose us to the risk of substantial losses if a single dominant customer stops purchasing our products. If we lose any customers and are unable to replace them with other customers that purchase a similar amount of our products and services, our revenues and net income would decline considerably.

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

## **Table of Contents**

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

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

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

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

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

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

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

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

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

level of government involvement in the economy;

control of foreign exchange;

methods of allocating resources;

balance of payments position;

international trade restrictions; and



international conflict.

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

---

**Table of Contents**

***Our business is largely subject to the uncertain legal environment in China and your legal protection could be limited.*** The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign shareholders, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China and not of the U.S., and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for shareholders to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

***The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.*** China only recently has permitted provincial and local economic autonomy and private economic activities. Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

***Future inflation in China may inhibit our activity to conduct business in China.*** In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has been more moderate since 1995, high inflation may in the future cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

***Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.*** The majority of our revenues will be settled in Renminbi and, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

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

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

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

---

## **Table of Contents**

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

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

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

***The market for our Common Stock is limited.*** The trading market in Unipro Common Stock was essentially non-existent before the Company agreed to acquire China Fire on September 1, 2006. The last trade before that date was in April, 2006 at \$0.25, a price that is neither representative nor indicative. From September 2, 2006 until October 26, 2006, approximately 6,619 shares of Common Stock were traded at prices from \$2.50 to \$3.50. The most recent trade on October 5, 2006 was at \$2.50. The trades occurred on seven separate trading days. On October 27, 2006, 500 shares traded at \$3.25. On October 30, 2006, 3100 shares traded at price ranging from \$3.35 to \$2.75, which was the last sale. China Fire has been a private company and its shares have never traded. Accordingly, there has never been a market for our shares.

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

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

market visibility for our Common Stock may be limited; and

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

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

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

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, we are incorporated in non-U.S. jurisdictions, we conduct substantially all of our operations in China, and all of our officers reside outside the United States.*** We conduct substantially all of our operations in China through our wholly owned subsidiaries in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. As a result of all of the above, our public stockholders may have more difficulty in protecting their interests through actions against our management, directors or major stockholders than would stockholders of a corporation doing business entirely within the United States.

## **Table of Contents**

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

actual or anticipated variations in our quarterly operating results;

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

announcements relating to strategic relationships or acquisitions;

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

statements by securities analysts regarding us or our industry;

conditions or trends in the our industry; and

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

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

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

Unipro has agreed to provide registration rights to (i) the Investors for all shares issued under the SPA and upon the exercise Series A and Series B Warrants (a maximum of 3,446,154 shares) (ii) certain shareholders of Unipro before the acquisition of China Fire who may not sell under Rule 144 (a maximum of 1,031,000 shares) and (iii) H.C. Wainwright and its employee who acquires shares under warrants.

If the registration of shares issued to Investors and shares issuable to Investors pursuant to Series A and Series B warrants is not effected by 150 days after October 27, 2006, the Company is subject to certain monetary obligations. The obligations are payments in an amount equal to 2.0% of the aggregate amount invested by each such Investor (based upon the number of Registrable Securities (defined as the shares issued under the SPA and issued and issuable under the Series A and Series B warrants) then owned by such Investor) and an amount equal to 1.0% of the aggregate amount invested by such Investor (based upon the number of Registrable Securities then owned by such Investor) for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective, up to a maximum amount of 24%. The maximum amount that could be invested by the Investors is \$12,164,924.

If the registration of shares is not effected within 12 months, the Unipro shareholders will have a put at \$3.25 per share. The maximum amount of the repurchase obligation is \$3,347,500.

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

***Our Common Stock may be considered to be a penny stock and, as such, the market for our Common Stock may be further limited by certain SEC rules applicable to penny stocks.*** To the extent the price of our Common Stock remains below \$5.00 per share or we have a net

## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form 8-K

tangible assets of \$2,000,000 or less, our common shares will be subject to certain penny stock rules promulgated by the SEC. Those rules impose certain sales practice requirements on brokers who sell penny stock to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000). For transactions covered by the penny stock rules, the broker must make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to the sale. Furthermore, the penny stock rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices and disclosure of the compensation to the brokerage firm and disclosure of the sales person working for the brokerage firm. These rules and regulations adversely affect the ability of brokers to sell our common shares and limit the liquidity of our securities.

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

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

**Table of Contents**

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

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

If we make such acquisitions we cannot predict whether:

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

we will realize any anticipated benefits of completed acquisitions; or

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

In addition, future acquisitions by us may result in:

potentially dilutive issuances of our equity securities;

the incurrence of additional debt;

restructuring charges; and

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

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

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

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

## **Table of Contents**

### **BUSINESS OF THE COMPANY**

#### ***Overview***

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

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

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

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

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

#### ***Our Industry***

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

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

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

The Chinese government began to attach increasing importance to industrial fire safety in the 1990's due to the increased loss of lives and properties as a result of fires. The government enacted various laws and issued

## **Table of Contents**

regulations on fire safety of which the most important include the Fire Safety Law of 1998 and the Safe Production Law of 2002. These laws, while expressing the government's increased emphasis on fire safety, can be vague and are not themselves responsible for the increase in demand. More important to the demand for products and services are various industry standards for fire safety systems design and products that have recently been adopted.

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

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

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

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

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

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

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

### ***Our Products and Services***

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

#### **Products**

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

Fire Detecting Products. The products include:



## Edgar Filing: UNIPRO FINANCIAL SERVICES INC - Form 8-K

- i Linear heat detectors mainly used in various industrial settings
  
- i Infrared flame detectors mainly used in the petrochemical industry
  
- i Combustible and inert gas detectors mainly used in the petrochemical and coal industries
  
- i Optical heat detectors- mainly used in various industrial settings

**Table of Contents**

## Fire Alarm Control Devices

## Water Mist/Sprinkler Systems

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

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

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

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

*Major Customers of Our Fire Safety Products*

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

## Services

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

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

**Table of Contents**

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

***Our Intellectual Property***

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

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

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

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

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

***Our Research and Development Efforts***

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

Our R&D activities involve improving existing products, developing new products, designing better and more efficient fire safety systems, and developing new applications for such products and systems. Currently, we are developing new technologies for detecting gases and for extinguishing fire with inert gas. We plan to conduct R&D to develop fire prevention material and paints in the future. Our R&D activities also involve further developing and improving our core manufacturing technologies so that we can expand our product lines and reduce overall costs.

## **Table of Contents**

We have entered into joint research and development agreements and other arrangements with China Mineralogy University and Xi'an Jiaotong University to develop technologies. Under the agreement with Xi'an Jiaotong University, we have exclusive ownership to any technology developed. Under the agreement with China Mineralogy University, we jointly provide research training for the graduate students but with an exclusive right to use any technologies developed. These efforts have led to the successful development of numerous peripheral products for our fire safety systems. To enhance our R&D capability, we constructed a new R&D center in 2006 which consists of a new 1,800 square meter building with new R&D equipment. We expect that it will be completely operational by the end of 2006. The total spending for the construction and equipment was around \$1 million. More funds will be allocated for purchasing additional equipment. The center is devoted to our research and development efforts and for the formation from these developments of integrated manufacturing practice and processes. The center will be a base for training research and technical personnel and for developing additional proprietary technologies.

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

### ***Our Marketing Efforts***

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

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

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

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

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

**Table of Contents*****Material and Parts Supply***

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

## Supplier Management System

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

## Purchasing Procedures

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

## Major Suppliers

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

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

<b>Item</b>	<b>Suppliers</b>	<b>Amount Purchased in 2005 (\$1,000)</b>	<b>Percentage of Total Purchase in 2005</b>
Sprinklers, Valves	Jiaozuo Changjiang Non-Ferrous Metals	303	12.68%
PC boxes and detectors boxes			