CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form 10-Q/A
November 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

-Q/A

Amendment No. 1

(Mark One)

Q **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: June 30, 2007

OR

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

Commission File Number: 000-25901

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

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

Delaware	**98-0509431**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Empl. Ident. No.)

13/F, Shenzhen Special Zone Press Tower, Shennan Road
Futian District, Shenzhen, China 518034
(Address of principal executive offices, Zip Code)

(86) 755-8351-0888
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

Q No £

Indicate by check mark whether the registrant is a larger accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

£ Accelerated filer £ Non-accelerated filer Q

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

£ No Q

The number of shares outstanding of each of the issuer s classes of common equity, as of August 10, 2007 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.0001 par value	37,798,487

EXPLANATORY NOTE

China Security & Surveillance Technology, Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A solely to correct for certain typographical error contained in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the U.S. Securities and Exchange Commission on August 13, 2007 (the Original Filing).

The correction is located under ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Results of Operations - Comparison of Three Months Ended June 30, 2007 and June 30, 2006 contained in the second paragraph of page 31 of the Original Filing, wherein the Company stated that [t]he remaining 32 projects had not been started as of June 30, 2007, and the value of these backlog projects was approximately $28.2 million. During the second quarter of 2007, the Company also completed implementation of 23 contracts signed in first quarter of 2007 (representing all of the contracts that had been signed, but not yet implemented, during first quarter of 2007), and recognized the revenue of $21.9 million related to those contracts. The sentence has now been corrected to read [t]he remaining 32 projects had not been finished as of June 30, 2007, and the value of these backlog projects was approximately $28.2 million. During the second quarter of 2007, the Company also completed implementation of 23 contracts signed in first quarter of 2007 (representing all of the contracts that had been signed, but not yet fully implemented, during first quarter of 2007), and recognized the revenue of $21.9 million related to those contracts.

No other information in the Original Filing is amended hereby. This Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and accordingly, the Company has not updated the disclosures contained herein to reflect events that occurred at a later date.

As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company s principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications in connection with this Form 10-Q/A (but otherwise identical to their prior certifications) and are also furnishing, but not filing, Rule 13a-14(b) certifications in connection with this Form 10-Q/A (but otherwise identical to their prior certifications).

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

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, including the following Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, our future operating results, our expectations regarding the market for security and surveillance products, our expectations regarding the continued growth of the security and surveillance market, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause our actual results to differ materially from those anticipated, expressed or implied in the forward-looking statements. These risks and uncertainties include, but not limited to, the factors mentioned in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2006, and other risks mentioned in this Form 10-Q or in our other reports filed with the Securities Exchange Commission (the SEC). The words believe, expect, anticipate, project, targets, optimistic, intend, aim, will or similar expressions are intended to identify forv statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

Use of terms

Except as otherwise indicated by the context, references in this Form 10-Q to CSST, we, us, our, or the Compan to China Security & Surveillance Technology, Inc., a Delaware corporation, and its consolidated subsidiaries. Unless the context otherwise requires, all references to (i) Safetech are to China Safetech Holdings Limited, a British Virgin Islands corporation; (ii) Golden are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People s Republic of China; (v) Cheng Feng are to Shanghai Cheng Feng Digital Technology Co. Ltd., a corporation incorporated in the People s Republic of China; (vi) Hongtianzhi are to Shenzhen Hongtianzhi Electronics Co., Ltd., a corporation incorporated in the People s Republic of China; (vii) Minking are to Changzhou Minking Electronics Co., Ltd., a corporation incorporated in the People s Republic of China; (viii) HiEasy are to HiEasy Electronic Technology Development Co., Ltd., a corporation incorporated in the People s Republic of China; (ix) BVI are to the British Virgin Islands; (x) PRC and China are to the People s Republic of China; (xi) U.S. dollar, $ and are to United States dollars; (xii) RMB are to Yuan Renminbi of China; (xiii) Securities Act are to the Securities Act of 1933, as amended; and (xiv) Exchange Act are to the Securities Exchange Act of 1934, as amended.

Overview of Our Business

China Security & Surveillance Technology, Inc. is a Delaware holding company whose China-based operating subsidiaries are primarily engaged in manufacturing, distributing, installing and servicing security and surveillance products and systems and developing security and surveillance related software in China. In July 2006, we acquired 100% of the equity of Cheng Feng. On April 2, 2007, we acquired 100% of the equity of Chain Star Investment, a Hong Kong corporation and the holding company of Hongtianzhi, a manufacturer of digital camera. On May 11, 2007, we acquired 100% of the equity of Link Billion Limited, a Hong Kong corporation and the holding company of HiEasy, a software developer. On June 4, 2007, we acquired 100% of the equity of Allied Rich Limited, a Hong Kong corporation and the holding company of Minking, a manufacturer of high speed dome cameras.

Our customers mainly comprise (i) governmental entities (including customs agencies, courts, public security bureaus and prisons), (ii) non-profit organizations (including schools, museums, sports arenas and libraries) and (iii) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues). These account for approximately 40%, 1%, and 59% of our revenues, respectively.

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

Our sales network covers most of China and we do not rely on any particular region for our business. Among our subsidiaries, Golden has 33 branch offices in provincial cities, Cheng Feng has 22 distribution points, Hongtianzhi has 53 distribution points, HiEasy has 11 distribution points and Minking has 10 distribution points.

Recent Developments

We have received approval for listing on the New York Stock Exchange (NYSE) and expect to start trading on the NYSE shortly after the Company appoints the requisite number of independent directors as required by the NYSE listing standards.

On July 2, 2007, the Company and Safetech entered into an Equity Transfer Agreement with Li Ngai, the sole owner of Ocean Pacific Technology Limited, a Hong Kong corporation (Ocean Pacific) pursuant to which Safetech purchased 100% ownership of Ocean Pacific from Mr. Li. Ocean Pacific is a holding company that owns all the outstanding equity of Hangzhou Tsingvision Intelligence System Co. Ltd. (Hangzhou Tsingvision), a PRC corporation which is engaged in the business of researching, developing, manufacturing and selling computer software and digital audio and video products. Under the Equity Transfer Agreement, in exchange for 100% ownership of Ocean Pacific, the Company agreed to pay RMB50 million (approximately $6.56 million) in cash and approximately RMB49 million (approximately $6.48 million) in shares of the Company s common stock. The $6.56 million cash price was paid as of the execution of the Equity Transfer Agreement. The number of shares issuable in satisfaction of the equity portion of the purchase price is 459,000, which will be issued within 90 days following the signing of the Equity Transfer Agreement. Please see our Current Report on Form 8-K filed on July 9, 2007, for more details.

Second Quarter Financial Performance Highlights

We continued to experience strong demand for our products and services during the second fiscal quarter of 2007 and growth in our revenues and net income. The security and surveillance product market in China continued to expand in the second quarter of 2007 due, in part, to several programs and regulatory drivers initiated by the Chinese government, such as State Ordinance 458 and the Safe City program, which require many public places, including city-wide surveillance systems, traffic conjunctions, critical government locations, cyber cafés, bars and discotheques, to install security systems. In addition, the economic development in China and the fact that the population in China in general is becoming relatively wealthier also contributed to increased demand for security and surveillance products within various industries and organizations, such as residential estates, factories and shopping centers. Our second fiscal quarter financial results also benefited from the consolidation of the three newly acquired companies, which contributed approximately $7.9 million revenues in aggregate, accounting for approximately 15.2% of the total revenues of the second fiscal quarter of 2007.

The following are some financial highlights for the second quarter of 2007:

- Revenues: Revenues increased $44.1 million, or 551.3%, to $52.1 million for the second quarter of 2007, from $8.0 million for the same quarter of last year.

- Gross margin: Gross margin was 28.6% for the second quarter of 2007, compared to 37.5% for the same period in 2006. Such decrease was mainly due to increased competition and the Company s strategic decision to lower its selling price to attract more customers and penetrate into new markets.

- Income from operations: Income from operations increased $7.2 million, or 300.0%, to $9.6 million for the second quarter of 2007, from $2.4 million for the same period last year.

- Operating margin: Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 18.4 % for the second quarter of 2007, compared to 30.0% during the same period in 2006.

- Net income: Net income increased $1.8 million, or 72.0%, to $4.3 million for the second quarter of 2007, from $2.5 million for the same period of last year.

- Net margin: Net margin (the ratio of net income to revenues, expressed as a percentage) was 8.3% for the second quarter of 2007, compared to 31.3% for the same period in 2006. The decrease was mainly due to the non-cash expenses.

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Fully diluted net income per share: Fully diluted net income per share was $0.11 for the second quarter of 2007, as compared to $0.10 for the same period last year.

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Non-cash items: Non-cash items included (i) the redemption accretion on convertible notes of $3.8 million, (ii) depreciation and amortization of $1.1 million, and (iii) non-cash employee compensation expense of $0.8 million for the second quarter of 2007. Total non-cash items are $5.7 million, an increase of $5.6 million, or 5600%, from $0.1 million for the same quarter of last year.

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

All amounts, other than for share and per share amounts, in millions of U.S. dollars

	Three Months Ended June 30,				
Non-cash items		**2007**		**2006**	**Increase (Decrease)**
Depreciation and amortization	$	1.09	$	0.09	1.00
Non-cash employee compensation		0.80		-	0.80
Redemption accretion on convertible notes		3.81		-	3.81
Total	$	5.70	$	0.09	
Non-cash items per share - basic					
Depreciation and amortization	$	0.03	$	0.00	0.03
Non-cash employee compensation		0.02		-	0.02
Redemption accretion on convertible notes		0.11		-	0.11
Total non-cash items per share - basic	$	0.16	$	0.00	
Non-cash items per share - diluted					
Depreciation and amortization	$	0.03	$	0.00	0.03
Non-cash employee compensation		0.02		-	0.02
Redemption accretion on convertible notes		0.10		-	0.10
Total non-cash items per share - diluted	$	0.15	$	0.00	
Net income per share - basic	$	0.12	$	0.10	
Net income per share - diluted	$	0.11	$	0.10	
Weighted average number of shares outstanding					
Basic		35,770,742		24,436,755	
Diluted		38,831,023		24,621,287	

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The following table summarizes the Company's non-cash components during the six months ended June 30, 2007 and 2006:

All amounts, other than for share and per share amounts, in millions of U.S. dollars

Non-cash items		**Six Months Ended June 30, 2007**		**2006**	**Increase (Decrease)**
Depreciation and amortization	$	1.89	$	0.19	1.70
Non-cash employee compensation		1.07		-	1.07
Redemption accretion on convertible notes		4.98		-	4.98
Total	$	7.94	$	0.19	
Non-cash items per share - basic					
Depreciation and amortization	$	0.06	$	0.01	0.05
Non-cash employee compensation		0.03		-	0.03
Redemption accretion on convertible notes		0.14		-	0.14
Total non-cash items per share - basic	$	0.23	$	0.01	
Non-cash items per share - diluted					
Depreciation and amortization	$	0.05	$	0.01	0.04
Non-cash employee compensation		0.03		-	0.03
Redemption accretion on convertible notes		0.14		-	0.14
Total non-cash items per share - diluted	$	0.22	$	0.01	
Net income per share - basic	$	0.26	$	0.26	
Net income per share - diluted	$	0.24	$	0.26	
Weighted average number of shares outstanding					
Basic		34,429,780		23,046,766	
Diluted		36,492,123		23,139,542	

Results of Operations

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

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

	Three months ended June 30				**Six months ended June 30**			
	2007		**2006**		**2007**		**2006**	
Revenues	$52.1	100%	$8.0	100%	$90.6	100%	$22.6	100%
Cost of goods sold	37.2	71.4%	5.0	62.5%	65.6	72.4%	15.2	67.3%
Gross profit	14.9	28.6%	3.0	37.5%	25.0	27.6%	7.4	32.7%
Expenses								
Selling and marketing	0.9	1.7%	0.2	2.5%	1.5	1.6%	0.2	0.9%
General and administrative	2.5	4.8%	0.3	3.8%	4.4	4.9%	0.7	3.1%
Non-cash employee compensation	0.8	1.5%	-	-	1.1	1.2%	-	-
Depreciation and amortization	1.1	2.1%	0.1	1.3%	1.9	2.1%	0.2	0.9%
Income from Operations	9.6	18.4%	2.4	30.0%	16.1	17.8%	6.3	27.9%
Other income, net	0.6	1.2%	0.4	5.0%	1.2	1.3%	0.7	3.0%
Redemption accretion on convertible notes	(3.8)	7.3%	-	-	(5.0)	5.5%	-	-
Interest expense	(0.3)	0.6%	-	-	(0.4)	0.4%	-	-
Income before income taxes and minority interest	6.1	11.7%	2.8	35.0%	11.9	13.1%	7.0	31.0%
Income taxes	(1.8)	3.5%	(0.3)	3.8%	(3.1)	3.4%	(1.0)	4.4%
Net income	$ 4.3	8.3%	$ 2.5	31.3%	$ 8.8	9.7%	$ 6.0	26.5%

Comparison of Three Months Ended June 30, 2007 and June 30, 2006

Revenues. Our revenues are generated from the supply and installation of security and surveillance packaged products. During the three months ended June 30, 2007, we experienced solid growth in revenues. Revenues increased $44.1 million, or 551.3%, to $52.1 million for the three months ended June 30, 2007 from $8.0 million for the three months ended June 30, 2006. The increase in revenues was mainly attributable to growth in the security and surveillance market in China, the increased market demand for our products and our increased brand recognition. Our strategic efforts to increase our distribution channels during 2005 and 2006 and sufficient working capital from our recent fundraising activities also allowed us to successfully take advantage of the growth in market demand in the second quarter of 2007. After Hongtianzhi, HiEasy and Minking became our wholly owned subsidiaries, we consolidated the financial results of these three companies in the second quarter of 2007, which contributed $5.3 million, $0.7 million and $1.9 million to revenues in the second quarter of 2007, respectively. We consolidated the financial results of Cheng Feng starting from the third quarter of 2006. Cheng Feng had revenues of $3.6 million in the second quarter of 2007. Management expects revenue growth to remain strong due to (i) continued growth in the security and surveillance market both within the corporate and government sectors, (ii) better capitalization of the Company to fuel our growth, (iii) continued enhancement of our branding and profiling in China, and (iv) our acquisition strategy intended to boost our market share and competitiveness.

During the second quarter of 2007, we signed 59 new contracts with a total contract value of approximately $45.5 million, of which we recognized $17.3 million in revenues. Of the 59 projects, 27 were finished as of June 30, 2007, and, accordingly, approximately $0.8 million of revenue related to warranty requirements was deferred to the third quarter of 2007. The remaining 32 projects had not been finished as of June 30, 2007, and the value of these backlog projects was approximately $28.2 million. During the second quarter of 2007, the Company also completed implementation of 23 contracts signed in first quarter of 2007 (representing all of the contracts that had been signed, but not yet fully implemented, during first quarter of 2007), and recognized the revenue of $21.9 million related to those contracts. The following table shows the revenues recognized in the second quarter of 2007:

(In millions of U.S. dollars)

Revenue recognized from contracts signed before the second quarter of 2007	$	21.9
Revenue recognized from contracts signed in the second quarter 2007	$	17.3
Other revenue from second quarter 2007	$	1.4
Revenue recognized from Cheng Feng	$	3.6
Revenue recognized from Hongtianzhi	$	5.3
Revenue recognized from HiEasy	$	0.7
Revenue recognized from Minking	$	1.9
Total revenue recognized in the second quarter 2007	$	52.1
Revenue deferred	$	0.8
Backlog of contracts signed before June 30, 2007	$	28.2

Components of Revenues. The following table shows the different components comprising our total revenues over the three months ended June 30, 2007 and 2006.

All amounts in millions of U.S. dollars

	Three months ended June 30,			
	2007		2006	
Security systems and installation	$	39.2	$	6.5
Sales of parts		12.9		1.5
Total	$	52.1	$	8.0

Income from installation projects contributed 75.2% of our revenues for the three months ended June 30, 2007, as compared to 81.3% for the same period last year. Management believes that revenues from the installation projects will continue to be the Company s major revenue source in the next a few years. With the acquisitions of Cheng Feng, Hongtianzhi, Minking, HiEasy and other planned acquisitions, management believes that the percentage of revenues from the sale of products will increase in the future.

Cost of goods sold. Our cost of goods sold is primarily comprised of the costs our raw materials, labor and overhead. Our cost of goods sold increased $32.2 million, or 644.0%, to $37.2 million for the three months ended June 30, 2007 from $5.0 million during the same period in 2006. This dollar increase was primarily attributable to the increase of our revenues in the second quarter of 2007. Components of cost of goods sold in the three months ended June 30, 2007 and 2006 are as follows:

All amounts in millions of U.S. dollars

	Three months ended June 30, 2007		Three months ended June 30, 2006	
	2007		2006	
Purchases of raw material (for installation)	$	26.8	$	3.3
Installation labor		0.5		0.1
Sales of parts		7.8		1.4
Other		2.1		0.2
Total	$	37.2	$	5.0

Installation labor and costs for raw materials for installation accounted for 1.3% and 72.0% of the total cost of goods sold for the three months ended June 30, 2007, respectively, as compared to 2.0% and 66.0% for the same period in 2006. The percentage of cost of goods sold related to the sales of products represented approximately 21.0% of the total cost of goods sold in the second quarter of 2007 as compared to 28% for the same period in 2006.

Gross profit. Our gross profit is equal to the difference between our revenues and our cost of goods sold. Our gross profit increased $11.9 million, or 396.7%, to $14.9 million for the three months ended June 30, 2007 from $3.0 million for the same period last year. Gross margin for the three months ended June 30, 2007 was 28.6%, as compared to 37.5% for the same period of 2006. The decrease in gross margin in the three months ended June 30, 2007 was primarily due to a decrease in our sales prices. During the three months ended June 30, 2007, approximately 40% of the project contracts executed was for projects in the western part of China where economic development is not as advanced as in the coastal cities.

Selling and marketing expenses. Our selling and marketing expenses are comprised primarily of sales commissions, the cost of advertising and promotional materials, salaries and fringe benefits of sales personnel, after-sale support services and other sales related costs. Our selling and marketing expenses increased $0.7 million, or 350%, to $0.9 million for the three months ended June 30, 2007 from $0.2 million for the same period in 2006. This dollar increase was primarily attributable to the consolidation of the financial results of Cheng Feng, Hongtianzhi, HiEasy and Minking, which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses decreased to 1.7% for the three months ended June 30, 2007 from 2.5% for the same period in 2006. The percentage decrease was mainly due to the effectiveness of our sales and marketing strategy.

General and administrative expenses. Our general and administrative expenses consist of the costs associated with staff and support personnel who manage our business activities and professional fees paid to third parties. Our general and administrative expenses increased $2.2 million, or 525%, to $2.5 million for the three months ended June 30, 2007 from $0.3 million of the same period in 2006. As a percentage of revenues, general and administrative expenses increased to 4.8% for the three months ended June 30, 2007 from 3.8% for the same period in 2006. The dollar and percentage increase was mainly due to the consolidation of the financial results of Cheng Feng, Hongtianzhi, HiEasy and Minking, the hiring of additional staff, the increased costs in connection with improving our internal controls and professional expenses related to the costs of being a public reporting company.

Non-cash employee compensation. Non-cash employee compensation for the three months ended June 30, 2007 increased by $0.8 million from $0 of the same period in 2006, primarily as a result of the adoption of the equity incentive plan in February 2007 and grants to senior management and other staff made under the equity incentive plan after its adoption.

Depreciation and amortization. Our depreciation and amortization costs increased $1.0 million, or 1,000%, to $1.1 million for the three months ended June 30, 2007 from $0.1 million for the same period in 2006. As a percentage of revenues, depreciation and amortization expenses increased to 2.1% for the three months ended June 30, 2007 from 1.3% for the same period in 2006. Such dollar and percentage increase was primarily due to the amortization of intangible assets from the acquisition of Cheng Feng, Hongtianzhi, HiEasy and Minking.

Income from Operations. Our income from operations increased $7.2 million, or 300%, to $9.6 million for the three months ended June 30, 2007 from $2.4 million for the same period in 2006. As a percentage of revenues, income from operations decreased to 18.4% for the three months ended June 30, 2007 from 30.0% for the same period in 2006. Such percentage decrease was primarily due to our strategic decision to reduce our sales prices to expand our markets as discussed above.

Redemption accretion on convertible notes. Redemption accretion on convertible notes for the three months ended June 30, 2007 was $3.8 million, as compared to $0 for the same period in 2006. We raised $110 million from issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be paid if the convertible notes are converted into shares of our common stock before their maturities.

Interest expense. Interest expense for the three months ended June 30, 2007 was $0.3 million, as compared to $0 of the same period in 2006. Such interest expenses increase was primarily due to borrowings under bank loans for our operations.

Income before taxes and minority interest. Our income before taxes and minority interest increased $3.3 million, or 117.9%, to $6.1 million for the three months ended June 30, 2007 from $2.8 million for the same period in 2006. As a percentage of revenues, income before taxes and minority interest decreased to 11.7% for the three months ended June 30, 2007 from 35.0% for the same period in 2006. Such percentage decrease was primarily due to increased non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation.

Income taxes. Foreign invested Enterprises (FIEs) established in the PRC are generally subject to an enterprise income tax (EIT). FIEs established in Shenzhen Special Economic Zone, such as our Chinese subsidiaries Golden and Hongtianzhi, are subject to an EIT rate of 15% for the fiscal year 2007. Our subsidiaries Cheng Feng and HiEasy are subject to an EIT rate of 7.5% for fiscal year 2007 due to their software and high technology company status. Minking is subject to an EIT rate of 33% for fiscal year 2007. We anticipate that our effective tax rate will change from the current 29.5% in the three months ended June 30, 2007 because the companies we acquired and intend to acquire are located in different cities and may have different tax rates.

On March 16, 2007, the National People s Congress of China passed the new EIT Law, which will take effect as of January 1, 2008. Under the new EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise and will normally be subject to EIT at the rate of 25.0% on its global income. The new EIT Law, however, does not define the term de facto management bodies. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25.0%. In addition, under the new EIT Law, dividends from our PRC subsidiaries to us will be subject to a withholding tax. The rate of the withholding tax has not yet been finalized, pending promulgation of implementing regulations. Furthermore, the ultimate tax rate will be determined by treaty between China and the tax residence of the holder of the PRC subsidiaries. We are actively monitoring the proposed withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact. The new EIT Law imposes a unified income tax rate of 25.0% on all domestic-invested enterprises and FIEs, such as our PRC operating subsidiaries, unless they qualify under certain limited exceptions, but the EIT Law permits companies to continue to enjoy their existing preferential tax treatments until such treatments expire in accordance with their current terms. We expect details of the transitional arrangement for the five-year period from January 1, 2008 to December 31, 2012 applicable to enterprises approved for establishment prior to March 16, 2007 to be set out in more detailed implementing rules to be adopted in the future. Any increase in our effective tax rate as a result of the above may adversely affect our operating results. However, details regarding implementation of this new law are expected to be provided in the form of one or more implementing regulations to be promulgated by the PRC government, and the timing of the issuance of such implementing regulations is currently unclear.

Our income taxes increased $1.5 million to $1.8 million for the three months ended June 30, 2007 from $0.3 million for the same period of 2006. We incurred more taxes during three months ended June 30, 2007 as a result of increased income before income taxes during that period.

Net income. Net income increased $1.8 million, or 72%, to $4.3 million for the three months ended June 30, 2007 from the same period in 2006. As a percentage of revenues, net income decreased to 8.3% for the three months ended June 30, 2007 from 31.3% for the same period in 2006. This percentage decrease was mainly due to the non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation.

Comparison of Six Months Ended June 30, 2007 and June 30, 2006

Revenues. During the six months ended June 30, 2007, we experienced solid growth in revenues. Revenues increased $68.0 million, or 300.9%, to $90.6 million for the six months ended June 30, 2007 from $22.6 millions for the six months ended June 30, 2006. The increase in revenues was primarily attributable to growth in the security and surveillance market in China, the increased market demand for our products and our increased brand recognition. Our strategic efforts to increase our distribution channels during 2005 and 2006 and sufficient working capital from our recent fundraising activities also allowed us to successfully take advantage of the growth in market demand in the first half of 2007. After Hongtianzhi, HiEasy and Minking became our wholly owned subsidiaries, we consolidated the financial results of these three companies in the second quarter of 2007, which contributed $5.3 million, $0.7 million and $1.9 million to revenues in the second quarter of 2007, respectively. In addition, Cheng Feng also contributed $5.9 million to revenues in the first six months of 2007.

Components of Revenues. The following table shows the different components comprising our total revenues over the six months ended June 30, 2007 and 2006.

All amounts in millions of U.S. dollars

	Six months ended June 30, 2007		Six months ended June 30, 2006	
Security systems and installation	$	73.3	$	19.6
Sales of parts		17.3		3.0
	$	90.6	$	22.6

Income from installation projects constituted 80.9% of our total revenues for the six months ended June 30, 2007, as compared to 86.7% for the same period last year. Income from sales of parts constituted 19.1% of our total revenues for the six months ended June 30, 2007, as compared to 13.3% for the same period last year.

Cost of goods sold. Our cost of goods sold increased $50.4 million, or 331.6%, to $65.6 million for the six months ended June 30, 2007 from $15.2 million during the same period in 2006. This dollar increase was mainly attributable to the increase in our revenues in the first six months of 2007. Components of cost of goods sold in the six months ended June 30, 2007 and 2006 are as follows:

All amounts in millions of U.S. dollars

	Six months ended June 30,	
	2007	2006
Purchases of raw material (for installation)	$ 54.8	$ 11.6
Installation labor	0.8	0.3
Sales of parts	7.8	2.7
Other	2.2	0.6
	$ 65.6	$ 15.2

Installation labor and security system purchase cost represented 1.2% and 83.5% of our total cost of goods sold for the six months ended June 30, 2007, respectively, as compared to 2.0% and 76.3% for the same period in 2006. The percentage of cost of goods sold related to the sales of parts represented about 11.9% of our total revenues as compared to 17.8% for the same period in 2006.

Gross profit. Our gross profit increased $17.6 million, or 237.8%, to $25.0 million for the six months ended June 30, 2007 from $7.4 million for the same period last year. Gross margin for the six months ended June 30, 2007 was 27.6%, as compared to 32.7% for the same period of 2006. The decrease in gross margin in the six months ended June 30, 2007 was mainly due to a decrease in our sales prices. We decreased our prices as a strategic move to increase our market penetration into new markets. During the six months ended June 30, 2007, about 40% of the contracts we executed were for projects in the western part of China where economic development is not as advanced as the coastal cities. We reduced the prices to gain market penetration in these cities. Despite the decrease of the gross margin in the first six months of 2007, we believe the gross margin for the six months ended June 30, 2007 was within the range of the average gross margin recorded by the Company.

Selling and marketing expenses. Our selling and marketing expenses increased $1.3 million, or 650%, to $1.5 million for the six months ended June 30, 2007 from $0.2 million for the same period in 2006. This dollar increase was primarily attributable to the consolidation of the financial results of Cheng Feng, Hongtianzhi, HiEasy and Minking, which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 1.6% for the six months ended June 30, 2007 from 0.9% for the same period in 2006. The percentage increase was mainly due to the hiring of additional sales staff and promotion cost of new products and services.

General and administrative expenses. Our general and administrative expenses increased $3.7 million, or 528.6%, to $4.4 million for the six months ended June 30, 2007 from $0.7 million of the same period in 2006. As a percentage of revenues, general and administrative expenses increased to 4.9% for the six months ended June 30, 2007 from 3.1% for the same period in 2006. The dollar and percentage increase was mainly due to the consolidation of the financial results of Cheng Feng, Hongtianzhi, HiEasy and Minking, the hiring of additional staff, the increased costs in connection with improving our internal controls and professional expenses related to the costs of being a public reporting company.

Non-cash employee compensation. Non-cash employee compensation for the six months ended June 30, 2007 increased by $1.1 million from $0 of the same period in 2006 primarily as a result of the adoption of the equity incentive plan in February 2007 and grants to senior management and other staff made under the equity incentive plan after its adoption.

Depreciation and amortization. Our depreciation and amortization costs increased $1.7 million, or 850%, to $1.9 million for the six months ended June 30, 2007 from $0.2 million for the same period in 2006. As a percentage of revenues, depreciation and amortization expenses increased to 2.1% for the six months ended June 30, 2007 from 0.9% for the same period in 2006. Such dollar and percentage increase was primarily due to the amortization of intangible assets from the acquisition of Cheng Feng, Hongtianzhi, HiEasy and Minking.

Income from Operations. Our income from operations increased $9.8 million, or 155.6%, to $16.1 million for the six months ended June 30, 2007 from $6.3 million for the same period in 2006. As a percentage of revenues, income from operations decreased to 17.8% for the six months ended June 30, 2007 from 27.9% for the same period in 2006. Such percentage increase was primarily due to our strategic decision to reduce our sales prices to expand our markets as discussed above.

Redemption accretion on convertible notes. Redemption accretion on convertible notes for the six months ended June 30, 2007 was $5.0 million, as compared to $0 of the same period in 2006. We raised $110 million from the issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be paid if the convertible notes are converted into shares of our common stock before their maturities.

Interest expense. Interest expense for the six months ended June 30, 2007 was $0.4 million, as compared to $0 of the same period in 2006. Such interest expenses increase was primarily due to borrowing under bank loans for our operations.

Income before taxes and minority interest. Our income before taxes and minority interest increased $4.9 million, or 117.9%, to $11.9 million for the six months ended June 30, 2007 from $7.0 million for the same period in 2006. As a percentage of revenues, income before taxes and minority interest decreased to 13.1% for the six months ended June 30, 2007 from 31% for the same period in 2006. Such percentage decrease was primarily due to increased non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation.

Income taxes. Our income taxes increased $2.1 million to $3.1 million for the six months ended June 30, 2007 from $1.0 million for the same period of 2006. We paid more taxes during the first six months of 2007 as a result of increased income during that period.

Net income. Net income increased $2.8 million, or 46.7%, to $8.8 million for the six months ended June 30, 2007 from the same period in 2006. As a percentage of revenues, net income decreased to 9.7% for the six months ended June 30, 2007 from 26.5% for the same period in 2006. This percentage decrease was mainly due to the non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non-cash employee compensation.

Liquidity and Capital Resources

General

As of June 30, 2007, we had cash and cash equivalents (including restricted cash) of $91.8 million. The following table sets forth a summary of our net cash flows for the periods indicated.

Cash Flow (in millions)

	Six Months Ended June 30,			
	2007		**2006**	
Net cash used in operating activities	$	(3.8)	$	(0.1)
Net cash used in investing activities	$	(52.4)	$	-
Net cash provided by financing activities	$	116.5	$	7.4
Effect of exchange rate changes on cash	$	0.5	$	0.1
Net cash flow	$	60.3	$	7.3

Operating Activities

Net cash used in operating activities was $3.8 million for the six months period ended June 30, 2007, which is an increase of $3.9 million from $0.1 million net cash used in operating activities for the same period of 2006. The increase of net cash used in operating activities in the six months ended June 30, 2007 was primarily due to increases in inventories and accounts receivable.

Investing Activities

Our main uses of cash for investing activities during the first six months of 2007 were deposits for the acquisition of subsidiaries and acquisitions of subsidiaries and properties.

Net cash used in investing activities for the six months ended June 30, 2007 was $52.4 million. Our net cash used in investing activities for the six months ended June 30, 2006 was minimal. Such increase of net cash used in investing activities was mainly due to acquisition for subsidiaries and properties and deposits for the acquisition of our subsidiaries.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2007 was $116.5 million, which is an increase of $109.1 million from $7.4 million net cash provided by financing activities during the same period of 2006. The increase of the cash provided by financing activities was mainly attributable to funds received from the two convertible notes issued to Citadel Equity Fund, Ltd. (Citadel).

Loan Facilities

As of June 30, 2007, the amount, maturity date and term of each of our bank loans were as follows:

(all amounts, other than percentages, in millions of U.S. dollars)

Bank	Amount		Maturity Date	Duration
China Construction Bank		-	September 2016	10 years
Shanghai PuDong Development Bank	$	1.32	February 2008	1 year
Shanghai PuDong Development Bank	$	3.94	February 2008	1 year
Shanghai PuDong Development Bank	$	0.78	November 2007	2 years
Shanghai PuDong Development Bank	$	2.63	May 2008	1 year
Shenzhen Commercial Bank	$	1.05	November 2007	1 year
Shenzhen Commercial Bank	$	1.38	January 2009	3 years
Total	$	11.10		

In April 2007, we completed a financing with Citadel pursuant to which we issued to Citadel $50 million aggregate principal amount of guaranteed senior unsecured convertible notes due 2012 (the April Convertible Notes). The April Convertible Notes bear an annual interest of 1% and carry an initial conversion price of $23.60 per share. If the April Convertible Notes are not converted before their maturity, they will be redeemed by us on the maturity date at a redemption price equal to 100% of the principal amount of the April Convertible Notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The net proceeds of approximately $50 million are and will be used for working capital and our acquisition plan.

We believe that our currently available working capital, after receiving the aggregate proceeds of our capital raising activities and the credit facilities referred to above, should be adequate to sustain our operations at our current levels through at least the next twelve months.

Obligations Under Material Contracts

Below is a table setting forth our material contractual obligations as of June 30, 2007:

All amounts in millions of U.S. dollars

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	$ 111.30	$ 0.20	$ 1.10	$ 110.00	$ -
Operating Lease Obligations	0.47	0.24	0.18	0.05	-
Total	$ 111.77	$ 0.44	$ 1.28	$ 110.05	$ -

Critical Accounting Policies

This Management s Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements, which have been prepared using accounting principles generally accepted in the United States of America. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including basis of consolidation, intangible assets, goodwill, inventories, revenue recognition, foreign currency translation, use of estimates and income taxes. Except for the implementation of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), as described below, management believes there have been no material changes during the six months ended June 30, 2007 to the critical accounting policies discussed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 21, 2007, as amended on March 23.

We adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 on January 1, 2007. We did not have any material unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

We file income tax returns in the U.S. federal jurisdiction and PRC jurisdictions. We were not subject to U.S. federal tax examinations for years before 2006. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expenses recognized during the quarter. Our effective tax rate differs from the federal statutory rate primarily due to non-deductible expenses, temporary differences, and preferential tax treatment.

Seasonality

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 6. EXHIBITS

Exhibit Index	Description of Document	Filed Herewith	To be Filed by Amendment	Incorporated by Reference To:
31.1	Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
31.2	Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
32.1	Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		
32.2	Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		

SIGNATURES

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

DATED: November 1, 2007

China Security & Surveillance Technology, Inc.

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

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