China Fire & Security Group, Inc.
Fourth Quarter and Full Year 2009 Earnings
March 16, 2010

Operator: Good day, everyone. Welcome to the Fourth Quarter and Full Year 2009 Earnings Conference for China Fire & Security Group Incorporated. Today's conference is being recorded.

At this time, I would like to turn the call over to Michael Tieu of ICR for opening remarks and introductions. Please go ahead, sir.

Michael Tieu: Thank you, everyone, for joining us for the China Fire & Security Group's Fourth Quarter and Full Year 2009 Earnings call. With us today is Brian Lin, China Fire's Chief Financial Officer, and Robert Yuan, China Fire's Principal Accounting Officer.

Before we get started, I am going to review the Safe Harbor statement regarding today's conference call. This conference call may contain, in addition to historical information, forward-looking statements within the meaning of the federal securities laws regarding China Fire. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, other than statements that are historical in nature. These forward-looking statements are based on current management's expectations and are subject to risks and uncertainties that may result in expectations not being realized and may cause actual outcomes to differ materially from expectations reflected in these forward-looking statements. Potential risks and uncertainties include product and service demand acceptance, changes in technology or economic conditions, the impact of competition and pricing, the impact of government regulations and other risks contained in the statements filed from time to time with the SEC. All such forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the cautionary statements. Before—because forward-looking statements are subject to risk and uncertainty, we caution you not to place undue reliance on these statements. Forward-looking statements made during this conference call only represent management's estimates as of today, March 16, 2010. China Fire & Security Group assumes no obligation to update these projections in the future as market conditions change.

For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 360 days on our corporate website, www.chinafiresecurity.com.

At this point, I would like to introduce Brian Lin, Chief Financial Officer of China Fire & Security Group. Brian?

Brian Lin: Thank you, Michael. Good morning, everyone, to those in the U.S. and good evening to those participants in Asia. Welcome to our Fourth Quarter and Full Year 2009 conference call. Today we will discuss our financial results, talk about our recent developments and our strategic plans and conclude with our guidance for the full year 2010.

In 2009, we are pleased to report that we continue to grow our business and further strengthen our position as the number one leading provider of industrial fire protection systems in China. Before we get into the details of our full year and fourth quarter 2009 financial results, I would like to review with you some highlights during the year.

We have achieved record revenue of 81.2 million, an increase of 12.1 million or 18% over the previous year. We increased our cash position to 35 million at the end of 2009, up from 27 million at the end of 2008. We further enhanced our internal controls and achieved full Sarbanes-Oxley compliance. We have won three patent infringement lawsuits filed against competing companies. These significant victories not only protect our intellectual properties but also validate the enforceability of our valuable patents.

We have made significant progress in the international market by signing over $10 million worth of new contracts, including a break-through contract win with NTPC, India's largest power plant. We have further strengthened our leadership position in our core iron steel market segment, where we have been cultivating new retrofit business opportunities, which led to the successful signing of the $92 million contract with Wuhan Iron Steel in February 2010. As such, although the deferred contract signing with Wuhan Iron Steel effectively reduced our projected fourth quarter 2009 revenue by approximately 10 million, overall we are very pleased that 2009 was another successful year for China Fire.

At this point, however, let me turn the call over to Robert for a detailed discussion on our fourth quarter and full year financial results. Afterwards, I will return to discuss our recent developments and our strategic plans and finally conclude with our guidance for full year 2010. Robert?

Robert Yuan: Thank you, Brian. As Brian has mentioned, the much larger than expected 92 million contract with Wuhan Iron Steel reached the cost of the unprecedented size and scope, took a few months longer than we had previously projected. As such, the project contributed zero revenue in the fourth quarter of 2009 but we had previously expected to recognize approximately US $10 million on that project. Aside from this, I am pleased that China Fire has once again accomplished solid quarterly and annual financial performance. Now, let's talk about full year 2009 results first.

Our revenue for the full year 2009 grew 18% to a record $81.2 million, up from $69.1 million in year 2008, driven by our strong growth in systems, contracting projects and product sales. During 2009, we completed 445 Total Solutions and product sales contracts compared to 319 contracts in the previous year. The iron and steel industry remains our largest sector and contributed 75% of our revenue this year, followed by power generation at 16% and petrochemicals and other verticals at 9%. During 2009, Capital Iron & Steel Group, Jinan Iron & Steel Group, Capital Engineering & Research Inc. were the three largest clients and collectively contributed approximately $18.9 million or 23.2% of total revenue.

Our gross margin for 2009 was a strong 58.0%, 80 basis points higher than our 2008 gross margin of 57.2%. The increase in the gross margin was primarily attributed to the successful execution of total solution contracts in iron and steel industry, partially offset by the increase in our labor costs for the subcontracts during the year. In light of the high gross margin that we have obtained historically and that we can foresee from our current backlog, we are increasing our long-term gross margin to a range between 50% to 60%, up from our previously guided range of 45 to 55%.

Driven by the revenue growth and gross margin expansion, our operating income grew 17% to $27.6 million in 2009 as compared to $23.6 million in 2008. Our 2009 operating margin was 34.0% as compared to 34.1% in 2008. During the year, our operating expenses totaled $19.5 million in 2009 compared to 15.9 million in 2008, mainly attributable to our marketing activities as we expanded our business into new markets, such as our efforts to aggressively pursue retrofitting profits. The change in operating expenses is also attributable to the increased employee salaries and compensation during the year. As a result, our GAAP net income was $24.4 million compared to 24.7 million for the year 2008, a slight decrease of $0.3 million or 1.2%, due to the significant increase in our effective income tax rate to approximately 14.6% in 2009 versus virtually 0% in 2008. Correspondingly, GAAP fully diluted EPS was $0.86 in 2009 compared to $0.88 in the previous year.

Now, let's move to fourth quarter results. Our revenue for the fourth quarter of 2009 decreased 19% to $16.9 million compared to $21.0 million for the fourth quarter of 2008. As we mentioned earlier, due to the prolonged signing time for the large retrofitting contract, we did not recognize any revenue from this project during the fourth quarter 2009, whereas, we had previously anticipated to contribute approximately US $10 million this quarter. Our fourth quarter gross margin was 48.8% versus a gross margin of 54.3% for the same period 2008. This is largely attributable to a lower percentage of our revenue coming from the iron and steel industry, which generally enjoys higher margins. This, in return, is mostly due to our not recognizing the large Wuhan Iron Steel retrofitting contract during this quarter, as anticipated.

During this quarter, the revenue contribution from the iron and steel industry dropped to 63% of total revenue compared to 74% of total revenue during the same period last year. Our operating expenses were $5.0 million for the fourth quarter of 2009 compared to $5.2 million for the same period 2008. The decrease in our operating expenses during this quarter was primarily due to the Company's tighter cost control during this quarter, offset by the increased selling expenses in marketing activity. Our operating income for the fourth quarter was $3.3 million compared to $6.2 million from the same period last year. The increase—the decrease in our operating income was primarily due to the decrease in gross profit.

Our GAAP net income for the fourth quarter of 2009 was $2.2 million as compared to $6.8 million for the same period 2008, mainly attributable to the reasons earlier discussed. As a result, fully diluted EPS was $0.10 in the fourth quarter of 2009 versus $0.24 in the fourth quarter of the previous year.

As of December 31st, 2009, our total backlog was $62 million from $75 million at end of the previous year. The decrease in our backlog, on a quarterly basis, was mainly attributed to the timing of our large retrofitting contract signing. As we previously announced, including the recently announced $92 million contract win, our backlog as of February 8, 2010, was $154 million. Out of that backlog, iron and steel industry was still the major vertical, contributing approximately 75%, while traditional power generation contributed approximately 15% of backlog. Petrochemicals, nuclear and other verticals together represented the remaining 10% total backlog. We expect to convert a majority of the current backlog to revenue in the next 12 months.

Now, I would like to turn your attention to our balance sheet and cash flows, and I'd like to only specifically address line items that have significantly changed or that I believe can have material impact to our ongoing operations. As of December 31st, 2009, we had cash and cash equivalents of $35.0 million, a sequential increase of $6.5 million from $28.5 million at end of the third quarter 2009. During the quarter, we generated $7.3 million cash from operations as compared to negative $4.6 million cash used by operations in the third quarter. Driven by better cash collection from our clients during this quarter, our net account receivables totaled 31.0 million, reduced by $1.4 million sequentially from $32.4 million last quarter.

Our days sales outstanding, or DSOs, were 165 days for the fourth quarter of 2009 compared to 118 days last quarter. The significant increase in our DSOs was mainly due the lower revenue during this quarter and we expect our quarterly DSOs to return closer to 120 days after our top line returns to its historical growth levels. Accordingly, our working capital increased slightly by approximately $0.1 million to $84.1 million, up from $84.0 million at the end of the third quarter.

We currently have no bank loans or long-term debt and, as such, our total share equity increased sequentially by $3.4 million to $104.4 million as of December 31st, 2009.

In summary, despite the strong impact of our not having been able to recognize revenue from our large 92 million contract during this quarter, I am satisfied with our continued growth and profitability throughout the year. We further strength our balance sheet with a growing cash position and our positive cash flow from operations afford us a strong position to further expand our industry leadership, increase our market share and explore other strategic opportunities.

With that said, let me turn the call back to Brian for a discussion on our recent developments and our strategic plans. Brian, please.

Brian Lin: Thank you, Robert. Let me now share with you our goals and growth strategies, as well as specific macroeconomic trends that continue to validate our plans. For 2010, to achieve accelerated growth with significantly lower costs, we aim to further leverage our Total Solution business model, proprietary, core technology and products and strong management team to seek innovations in Total Solution sales systems and technologies and project management. Let me share with you the four key growth strategies that we will undertake in 2010.

Our first key growth strategy is to continue to develop and capture opportunities in providing fire protection Total Solutions to high end customers in iron and steel and other infrastructure-related industries. Let me start with the iron and steel industry. We aim to further expand our major breakthroughs in the retrofitting and maintenance services domain and to capitalize on the industry's continued consolidation. There are two important drivers in this vertical that we believe will create large revenue opportunities for us over the next three years. The number one market driver is the significant growth from retrofitting market, driven by the newest regulatory and government policies on fire protection and a cap ex spending plans of our tier one iron and steel customers, as well medium size customers.

From the regulatory perspective, the Chinese government began to implement the newly revised Fire Protection Law of People's Republic of China on May 1st, 2009, which expanded on its previous mandatory National Standards of Code of Design for Fire Protection and Prevention for Iron and Steel Metallurgy Enterprises enacted on January 1st, 2008. The combination of these new regulations strictly encourages iron steel groups to upgrade their fire safety facilities so as to effectively prevent fire hazards and issue full safety throughout production.

From the cap ex perspective, in the iron and steel industry, while the Chinese government has taken measures to curve a potential supply overcapacity, we have seen that many tier one iron and steel groups have shifted their cap ex budgets towards renovating and upgrading their existing capacities. This is consistent with the government push for industry revitalization through technology upgrades. In the iron and steel industry, it is estimated that more than $8.5 billion was invested in 47 technology code transformation and upgrade projects in 2009.

In light of these retrofit opportunities, China Fire, since the beginning of 2009, has been actively working with the top iron and steel groups on their retrofitting fire protection systems for the existing plants. As an example, a retrofitting contract with Wuhan Iron and Steel Group now signed in February 2010 was actually started in early 2009 and the initial scope was only for retrofitting several high risk plants. However, after we completed the investigations, analysis and assessments of all plants located in Wuhan Iron and Steel's Qingshan region, WISCO decided to retrofit the entire 32 plants in Qingshan region, which is substantially larger than we had expected. With a total annual output of 30 million tons, WISCO has to date only engaged us to retrofit for about 50% of their total capacity. We are very optimistic that WISCO will retrofit the remaining 50% of their total capacity in the foreseeable future.

In addition to large iron and steel group companies, we have been also working with a few mid-sized iron and steel companies to retrofit high risk plants. With a total annual output of 300 million tons from the major iron and steel companies and with strong support from the Chinese government, China's massive iron and steel industry will likely accelerate retrofitting outdated fire safety systems in the near future. We estimate this market could total $2 billion.

The number two driver is the further consolidation in the iron and steel industry. The Chinese government hopes to form five globally competitive large steel groups within China, each with having a production capacity of approximately 50 million tons per year. The top five steel groups are expected to account for 45% of the country's total capacity in 2011. However, data indicated that the total capacity of the top five iron and steel plants in China only accounted for 29% of the national capacity in 2009. Supported by the government, we expect these tier one groups will lead the industry consolidation, which should drive further revenue opportunities for China Fire.

According to *China Business News,* or CBN*,* the chairman of Wuhan Iron and Steel Group and the chairman of the China Iron and Steel Association submitted a petition to the National People's Congress recently for its accelerated approval to build two new 10 million ton iron and steel plants in Shandong and Guangdong provinces, respectively. The new build-out that the Wuhan Iron and Steel and Baosteel, respectively, are the core projects for the industry's restructuring and revitalization plan, and we play an important role to optimize the planning of overall iron and steel industry, phasing out backward production facilities, increase the development in the Western regions of China and boost domestic demand according to the Chairman. Therefore, we are very optimistic to receive more fire protection contracts from this new build-out in the near future.

So to summarize, we believe that China Fire not only will benefit from the retrofitting opportunities from existing capacities but also will gain more business opportunities when steel giants expand their capacity in the near future.

In addition to the significant opportunities from the iron and steel industry, next let me share with you our thoughts in expanding into new verticals in regional and international markets. Our new targeted verticals include conventional power plants, power transmission grids, nuclear power plants, petroleum and natural gas, petrochemicals, transportation, such as subways, highway tunnels and high speed trains, ships and marine and telecommunications carriers, in particular China Mobile, China Unicom and China Telecom.

Turning to power generation and transmission industry, we won approximately $11 million worth of contracts in the power generating vertical in 2009. Statistics show that China's investment in power infrastructure in 2009 reached approximately $110 billion, up by 20% on a year-over-year basis, among which the investment in power generation and power grid reached 55 billion and 56 billion, respectively, up by 9% and 35% year-over-year. The investments in the construction of power grids substantially increased, accounting for 51% of the total investments in the power sector. China Fire has been providing fire protection Total Solution and integrated product sales to several large power generating companies and has also started providing fire alarm and suppression systems for underground power tunnels and the regional transformers, owned by Power Grid. We expect to win more contracts and increase our market share in this industry.

In the nuclear vertical, we won a total contract of $7.5 million in 2009. According to statistics released by China Electricity Council, China has 11 nuclear power plants with 9 gigawatts of installed capacity at the end of last year. China aims to have about 70 gigawatts of total installed capacity in the nuclear power industry by 2020, according to State Electricity Regulatory Commission, which translates into approximately 150 billion investment over the next 10 years. As the leading company in providing integrated fire protection products for China's nuclear power industry, we are confident that China Fire is well positioned to capture a significant portion of the fire protection business in this sector.

Next is the transportation vertical. We are now also optimistic about our revenue opportunities in the transportation vertical. During the first half of 2009, more than 40 lines of subways were started construction in 14 different cities. In December 2009, the State Council approved a plan to invest approximately $130 billion to invest to build subway lines in 22 cities with 79 lines. So far, China Fire primarily sells our proprietary linear heat detectors and certain fire suppression products to other system integrators who provide integrated systems to subways in Beijing, Nanjing and Wuhan. We are selectively pursuing business opportunities in providing turnkey solutions for subways, where we could generate more revenues and profits.

The Chinese government has been investing in many infrastructure-related projects, including railways constructions, airports, stadiums and exhibition centers. These infrastructure investments all represent potential revenue opportunities for China Fire in the long run, as they all require fire protection products and services. As such, we will continue to strengthen our integrated product sales and cater new Total Solution systems to these industries.

And finally the international market. As we mentioned before, we have been actively developing our business in the international market. In 2009, we have not only successfully signed up over $10 million worth of contracts in international market, primarily in India and Indonesia, but we also won strong customer recognition from NTPC, the largest power company in India. With a double digit GDP growth rate target, the Indian government is making significant investments in domestic infrastructure to spur its economic growth, including large scale construction and upgrades for national power plants, iron steel plants and transportation systems.

The current Indian government has set ambitious targets to almost double investment in infrastructure by injecting 300 to $450 billion over the next five years. This presents us with significant business opportunities in expanding our presence in the Indian market in 2010 and beyond. We aim to make additional progress and market our patented linear heat detectors and water mist systems into this market, as we also leverage of other core products and Total Solution packages. We are very confident that our UL certified proprietary patented products will allow China Fire to further solidify our competitive position, enhance our brand awareness, and secure more contract wins in the international market.

Our second strategy is to further enhance proprietary product research and development, standardization, industrialization and intellectual property production in order to broaden China Fire's product portfolio, improve profitability, help penetrate new verticals and increase product sales through direct and independent third party channels. In 2009, we continued to drive innovation and strengthen our R&D capabilities as our core strategies through both internal and external development. Internally, we established a photoelectric product center to develop innovative fire detection products, including our next generation triband (sp?) infrared flame detector, our next generation infrared combustible gas detector and fiber optic based linear heat detectors. Externally, we established a fire control safety research institute, together with Wuhan University of Science and Technology, or WST, which is one of the top universities in the country for metallurgical and mining engineering. We aim to jointly develop fire safety products by combining WST's advanced research capabilities with our built-in expertise in the fire safety industry.

Driven by strong R&D, we grew our total patents number to 119, with additional 24 patents pending in 2009. We are also glad to have won three lawsuits protecting our intellectual property rights in 2009, and we believe these victories will enable us to quickly and strongly enforce our intellectual property rights in the future. In addition to our core products in industrial fire detection and suppression systems, we plan to further expand our product portfolio through internal development and partnership with third parties and provide our customers with integrated product development and skilled product manufacturing. We also aim to enhance fire codes, not only in iron and steel industry, but also in other new verticals and initiate improvements on certain current product standards at national and international level. Thus, we are confident that we will continue to increase market share of our integrated products through both our Total Solutions and independent product sales through channels.

Our third growth strategy is to continue to build a strong management platform to support accelerated growth, business growth, by improving coping (sp?) management capabilities in contract budgeting, financial control and audits and human resources management. With the number one brand in China's fire protection industry but yet still controlling a relatively small market share, we believe there are ample growth opportunities in the near future for China Fire. As such, we will increase our efforts in retaining key employees and attracting new talent from the fire protection industry, as well as other related industries.

Our additional growth strategy is to be strategic and opportunistic in joint ventures and mergers and acquisitions. The objective is to augment China Fire's strong organic growth strategy. We believe that our strong balance sheet enables us to target good companies that have strong market presence in certain industrial verticals, or have strong marketing channels, or companies with recurring maintenance services revenues. We intend to leverage our brand of technical experience and our broad distribution to drive synergistic revenue opportunities. As you can see, we have ahead of us a very exciting 2010 and beyond, and our management team is more enthusiastic than ever about China Fire's growth momentum.

Let's now look at the outlook for 2010. For the full year 2010, the Company reaffirms its projection that its revenue will grow between 66% to 78% to a range of 135 million to 145 million. Net income is expected to grow between 89% to 105% to a range of 47 million to 49 million or $1.65 to $1.70 per diluted shares.

In closing, we continue to be excited with our growth prospects in our core iron and steel market and customer base. We are excited that the new retrofit market opportunities are essentially an extension of our core iron and steel business, as the projects require the same core products, core technical and verticals expertise that have made China Fire the market leader with a number one brand in China.

This concludes my prepared remarks for the fourth quarter and full year 2009. Once again on behalf—Operator, we will now open the call for questions.

Operator: Thank you, sir. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key, followed by the digit one on your telephone. Again, that's star, one on your telephone to ask a question. If you are on a speakerphone, please make sure your mute option is turned off to allow your signal to reach our equipment. And once again, everybody, that is star, one to ask a question and I will pause for a moment.

And again, everyone, I would like to remind you that is star, one to ask a question.

Our first question comes from Alex Potter with Piper Jaffray. Please go ahead, sir.

Alex Potter: Hi, Brian and Robert.

Brian Lin: Hi, Alex.

Robert Yuan: Hi.

Alex Potter: I, first of all, had a question on what revenue visibility looks like here in 2010. Clearly, you gave good guidance but was just wondering how that is spread out over, I guess, on a quarterly basis? And I guess a more direct way of asking the question is, how do you see revenues from this big Wuhan Iron and Steel project being recognized? Is that mostly back-end loaded? Are you going to be getting a good chunk of that in Q1? How is that spread out?

Brian Lin: We typically do not provide quarterly guidance, however, just to share some light on the revenue recognition for Wuhan Iron and

Steel, I think the project is going to be recognized over a two-year period and it will start slower because we need to get the whole budgeting in place and the plan in place, so it's going to take a little while to get started. So, in other words, the revenue recognition will be back-end loaded.

Alex Potter: Okay, great, that's very helpful. I just also have one, a modeling question here. Obviously the tax rate bumped up to 19.5% in the quarter. I was just wondering what we should be modeling going forward into 2010 for tax rates?

Robert Yuan: Hi, Michael. If you should talk about the effective tax rate, I think for the following years, maybe you can use our annual number for the 2009, which is around 14.6%. I think you can use that number for your future projections.

Alex Potter: Okay, very good. Was also wondering if you have any visibility on, I guess, more large projects like this. You had mentioned that, in the foreseeable future, Wuhan Iron and Steel could—Wuhan Iron and Steel could eventually, I guess, contract out the retrofitting for the remainder of their project, or the remainder of their capacity, the 50% of their capacity. It stands to reason I guess that, you know, Baosteel and Capital Iron & Steel and Jinan and all of the other large steel manufacturers, they all have to retrofit their capacity as well, I would assume. What is the timing on that? What sort of visibility do you have on when, either Wuhan Iron and Steel or any of the other big steel majors might move forward with those types of projects?

Brian Lin: Alex, I guess we have to be very careful in providing this timing since we kind of missed the first one. We thought we would have signed it in the first year and—but I think it really depends on the urgency of these management teams of the large iron and steel companies and also the scale, the scope of the area that they want to cover, the priority-wise, whether they want to do in the entire region or a few select high risk plants. So I think it's hard to make any predictions now, even though our sales force are actively working with all these top tier customers. But medium sized companies, I think since most of them are addressing their kind of immediate, high risk plans, so those contracts could be much sooner and much quicker, so we do expect to have contract wins for—from a few selected medium size companies maybe quicker than the other ones.

Alex Potter: Okay. And assuming that you did get these additional contracts, maybe from a large iron and steel manufacturer and maybe from some medium ones, you would have the capacity in terms of manpower and also in terms of actual manufacturing capacity to meet that demand?

Brian Lin: On the manufacturing perspective, we do have enough space to expand our manufacturing machineries to support the growth of our business. And human resource-wise, yes, we have a model that we have. We work with a couple of staffing agencies, and we provide proper training to get them up to speed when it comes to skill deployment. So, yes, it is a challenge, especially for operate large products, but I think since it's going to be a two-year project and we use—we have the main expertise, it's the same skill sets that we have been providing to our customers. So we don't think that that presents any significant challenges for us. There's no barriers, no—it's not a new vertical that we are going to get into, so we are very comfortable in executing those contracts.

Alex Potter: Okay, very good. Thanks very much for answering the questions. I'll get back in queue.

Brian Lin: Thank you, Alex.

Robert Yuan: Thank you.

Operator: As a reminder, everyone, that is star, one to ask a question or make a comment. Our next question comes from John Ma with Roth Capital Partners.

John Ma: Hi, Brian, Robert.

Robert Yuan: Hi, John.

Brian Lin: Hi, John.

John Ma: Good. The question really regarding your gross margin, and your gross margin Q4 fluctuated, because iron and steel represent a low percentage of revenue, so I'm just curious, when you're bidding, contracting subways and the power plants, typically what kind of a, you know, gross margin can we expect?

Brian Lin: John, we have not provided margins for different verticals. It is in the iron and steel industry, it's the highest vertical since it has the largest percentage of our products in the Total Solution offerings. In other verticals, they are lower than iron and steel but it varies project to project. And certain projects have a slightly higher margin—is higher percentage of a product and certain projects have very little, maybe 10% of our product in the total offering. So it's lower than iron and steel but it varies.

John Ma: Okay. Another question. You mentioned Baosteel and Wuhan Steel, these two big new projects. Any color on when, you know, will that possibly get approved and eventually open for bid?

Brian Lin: I just kind of answered a similar question that Alex raised. We are not able to provide any guidance on the timing of these contracts as yet since they involve quite a lot of resources like the—depending on a lot of factors, but I think we are—our sales force are leveraging on the contract win with Wuhan Iron and Steel. We are pursuing those opportunities now very—and are also very active.

John Ma: Okay, that's fair. My last question is that, now given the profitability of the steel industry right now, do you expect your—the cash collection to continue to improve?

Brian Lin: I think for the iron and steel industries, they just—yes, their profit level has been reduced compared to 2007. But they are profitable now and they are—we are—our cash collection from our customers has improved since the first half. So I think, going forward, we hope we are still—we can still keep the momentum.

John Ma: Okay. Thank you.

Brian Lin: Thanks.

Operator: Our next question comes from Zachary Trinski (sp?) with Coyote Capital. Your line is open, please go ahead, sir.

Zachary Trinski: Sorry about that. Thank you very much for taking the call. Can you give us a little more guidance on what the size of the market could be in India? I know you mentioned it briefly, in terms of your overall expectations for 2010, 2011, what percentage of revenue might you expect? And is there any opportunity in some other countries, such as South Korea, that have large steel industries? You know, do you see your product portfolio mix being competitive with the fire safety companies in that country and perhaps some of the other countries in that region?

Brian Lin: Sorry, we do not have the market size for India right now. I think we have been looking at quite a number of projects in India, ranging from their power plants, as well as iron and steel plants, so we are pursuing quite a few of these opportunities right now. We do have a higher revenue expectation from—actually higher contract numbers for 2010 and versus the $10 million in 2009. But in terms of revenue recognition, that's different because we recognize our revenues based on percentage of completion so it's hard to say how much revenue we can recognize in 2010 from Indian market as yet. But I think it's going to be more, much more than we have recognized in 2009.

In terms of the other countries, as I mentioned, we also won projects in Indonesia, and we also are bidding projects in Africa and also in Vietnam. But in countries like South Korea, we have not—we do not have any plans getting into Korean market now since we are more focusing on developing countries where the power and kind of iron and steel demand is growing very fast.

Zachary Trinski: Okay. That's a fair answer. You also—I don't think you mentioned anything about the automotive industry. Is there any potential market for retrofitting some of the older automotive plants here in China?

Brian Lin: Yes, we have not really looked into the plants for automotive, the parts, et cetera. That could be a market potential for us, but at this time, we have not looked at that market as yet. That's certainly a potential area.

Zachary Trinski: Okay. Fair enough. Thank you very much. No further questions.

Brian Lin: Thank you.

Operator: And we have a follow-up question from Alex Potter with Piper Jaffray. Please go ahead.

Alex Potter: Yes, hi again, guys. Thanks for taking the follow-up.

Brian Lin: Hi.

Alex Potter: I had a couple of questions here on other verticals as well. First of all, you had mentioned in your prepared remarks that there are—that you'll be working on fire codes and I know how important fire codes are to your profitability in the iron and steel industry. I was just wondering if you have any visibility on when additional fire codes might be approved, in say petrochemicals, transportation, nuclear power, power industry, anything like that, on a national basis?

Brian Lin: No, we do not have any kind of timing on the new fire codes for these verticals as yet, since they need to go through multiple approvals, multiple reviews and votes. And, for example, the subway—the fire codes for subway systems are not there yet so that's an area a lot of companies are looking into and we are certainly part of it. But I think this is more government treatment initiative so—but we are very—we are working very actively in those meetings.

Alex Potter: Okay. And then one last question here on the nuclear industry. I was just wondering how aggressively the Chinese government is with implementing this nuclear strategy? I know that you outlined this long-term goal of having 70 gigawatts by 2020. Are you seeing plants getting built? I would assume that that's, you know, a couple of plants every year that need to get built between now and then. Have you seen big contracts coming out to bid that you can potentially bid on in 2010 and 2011?

Brian Lin: Yes, yes, we actually see new build-outs of nuclear power plants every year. I think the number is between five to eight in 2008 and 2009 so we bid—we were very successful in 2008. We won a majority of the contracts. In 2009, we won certain portion of the bids that were out, and I think in 2010 and '11, we still very actively bidding for projects. And we actually just recently won a smaller—a small contract from one nuclear power plant.

Alex Potter: Okay. Very good. Thank you very much.

Brian Lin: Yes, the number is probably between five to eight plants every year, not just a couple of plants.

Alex Potter: Okay. Thanks very much.

Brian Lin: Sure.

Operator: And that concludes the question and answer session. I would like to turn the call back over to your speakers for any additional or closing remarks.

Michael Tieu: Once again, on behalf of the entire China Fire & Security management team, we want to thank you for your interest and participation on this call. If you have any interest in visiting our office in Beijing, please let us know. Thank you for joining us today. This concludes our Fourth Quarter and Full Year 2009 conference call.

Operator: And that concludes today's teleconference. Thank you for your participation.