

LETTER TO SHAREHOLDERS

Dear Shareholders:

Despite the challenging global macroeconomics environment, I am proud of our many achievements. In 2008, China Fire and Security Group, Inc. delivered strong results and made substantial operational and strategic progress. I am very pleased that we completed fiscal year 2008 in sound financial health, with record revenue and net income, a strong balance sheet, and solid cash flows from operations. We continued to grow our business and our brand successfully, and we further strengthened our position as a leading provider of industrial fire protection solutions in China.

Business Highlights

Boosted by a combination of China's consolidation of the iron and steel industry and build out of nuclear generators, power generators, oil refineries, and railway systems, we experienced strong demand for our fire protection systems throughout the year.

In 2008, we continued to expand our market leadership in our core iron and steel segment, as our fire protection systems are installed in approximately 70% of the largest new systems in this vertical. We won major contracts from Jiuquan Iron & Steel Group, Wuhan Iron & Steel Group, Anshan Iron & Steel Group, and XinYu Iron and Steel. Despite general concerns of challenging times for China's iron and steel industry, we actually witnessed strong demand for our total solutions in this vertical, as our Tier-1 customers received extra government support for consolidation.

We also expanded further into other complementary industries by leveraging our leading brand and total solution offering. We are delighted with our momentum in the power generation vertical, as we won contracts totaling \$13.4 million in 2008, versus \$4.4 million in 2007. We are also pleased that the nuclear sector had already become our new large vertical in 2008, as we won a total of \$12.9 million in new contracts, as compared to less than \$1 million in 2007. We view these project wins as significant breakthrough in this emerging vertical. We are also satisfied with our further penetration in the petrochemical vertical, as we grew contract wins by 56% to \$6.5 million in 2008.

Strong Financial Performance

China Fire accomplished solid financial performance in 2008 and delivered strong revenue growth, expanded profitability, and positive cash flows from operations.

We achieved record revenue of \$69.1 million, an increase of \$22.3 million or 47.8% over the previous year. We entered 2009 with a record backlog of \$72 million, as compared to \$62 million a year ago. During 2008, we completed 360 total solution and product sales contracts, compared to 274 contracts in the previous year. The iron and steel industry is still our largest sector and contributed 81% of our revenues, followed by power generation at 9%, and petrochemical at 4%. In 2008, Capital Iron and Steel was our largest customer, contributing \$17.6 million or 30.8% of total revenue, as we fulfilled more than half of our \$31 million contract and are on schedule to fully complete the contract in 2009.

Our gross margin for 2008 expanded to 57.2%, or 230 basis points higher than our 2007 gross margin of 54.9%. The increase in our gross margin benefited from increased use of our proprietary products to fulfill contracts, which can command higher selling prices and contribute higher gross profit than third party products. Correspondingly, we posted record GAAP net income of \$24.7 million, a year-over-year increase of 47% compared to \$16.8 million in 2007, while our fully diluted GAAP EPS grew 44.6% to \$0.88, compared to \$0.61 in 2007.

During the year, we generated \$13.6 million in cash from operations, an increase of 39% from \$9.8 million

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in the prior year. Our cash balance grew by \$7.9 million to \$24.7 million, and we remained debt-free, despite our continual investments in further developing our proprietary technologies and products.

Sustainable Competitive Advantages

Since our founding in 1995 as the first Chinese company specializing in industrial fire safety, we have established ourselves as a market leader in China's industrial fire safety industry. We are proud that China Fire has developed a series of proprietary technologies for industrial fire safety products, including our Linear Heat Detectors (LHD) which have been granted dozens of patents worldwide and have repeatedly won over our tier-1 customers' trust and business. We are very proud of our strong portfolio of 76 patents and 37 pending patents for our key products, including linear heat detectors, water mist systems and fire suppression systems, both in China and internationally. We are also highly optimistic about several new innovative products in our development pipeline that we believe can become significant contributors to our future growth.

Our cutting-edge research and development and team of industry policy leaders have enabled us to become one of the chief editors for China's national fire standards. 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 are also an editorial member for the national Codes of Fire Protection Standards for Metallurgy, Iron & Steel Enterprises, and for the "Linear Heat Detector" and participated in the formation of various other fire codes at the national and provincial level. We continue to actively advise regulatory bodies in China, and we believe that our close participation in the development of new standards and code enhancements continues to elevate our brand and enhances our competitive position.

Corporate Strategy

Building on our momentous success in 2008, we will continue to fully utilize China Fire and Security's brand name and broad market influence to further expand our market leadership in the coming year. As mentioned earlier, we believe demand for our innovative and reliable fire protection solutions continues to grow rapidly, as we benefit from a variety of government initiatives and stimulus in all of our target verticals.

Our core iron and steel vertical should benefit from myriad drivers, including the government's loan subsidies, revitalization scheme, stimulus plan, and industry consolidation. According to the Minister of the PRC's Ministry of Industry and Information Technology, the Ministry will spend RMB 15 billion (or approximately US\$2.2 billion) to subsidize loan interests for technology upgrade and reform projects in the Iron and Steel industry. Similarly, China's State Council has released The China Iron & Steel Industry's Revitalization Scheme, which will provide financial subsidies and loan discounts to leading iron & steel companies. Moreover, approximately half of the government's RMB 4 trillion (US\$585 billion) stimulus plan will be allocated for investments into steel-consuming infrastructure construction projects, and it is expected that the stimulus plan will drive demand for an additional 100 million tons of steel.

The government is also preparing a three-year plan to consolidate China's steel industry, engineering the rise of three major steel groups, according to the China Iron & Steel Association. Shanghai-based Baosteel Group Corp., Wuhan Iron & Steel (Group) Corp., and the combined group led by Anshan Iron & Steel Group Corp. and Benxi Iron & Steel (Group) Co. will lead the consolidation. The three will emerge as China's steel giants, with each having a capacity of over 50 million metric tons by 2011. We're happy to report that all three are our existing customers.

We believe that as the industry consolidates, the large producers will continue to upgrade their production

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facilities to modern standards, which creates additional demand for our solutions. It is widely recognized by the government and by our customers that our fire protection systems can truly ensure that our customers' production facilities are fully compliant with China's new mandatory fire codes, and therefore, we believe that they are indispensable for new or recently-upgraded iron & steel production facilities.

We are also optimistic of greater demand for our solutions in our other target verticals. In the power generation vertical, the government plans to invest \$44 billion on new power generation capacity in 2009, according to the China Electricity Council. In the nuclear power vertical, China plans to invest RMB 450 billion (or approximately \$66 billion) in 2009 on nuclear power development and build three to five large-scale nuclear power plants by 2020. Shortly after the announcement of the stimulus plan in 2008, three large nuclear power projects costing RMB 120 billion (or approximately \$18 billion) received the go ahead to start construction. Meanwhile, the government mandates that at least 50% of the equipment used for new nuclear power plants should be sourced locally, which directly benefits China Fire.

In the petrochemical vertical, as part of a petrochemical stimulus package approved by the State Council, the government plans to build new refineries with total crude processing capacity of 2.2 million barrels a day and establish an oil product reserve system that could reach overall reserve volume of 10 million tons within three years. Furthermore, the National Energy Administration's three-year energy blueprint includes building three refining bases in the eastern cities of Shanghai, Ningbo and Nanjing, each with an annual crude processing capacity of 30 million tons, or close to 602,500 barrels per day. The plan proposes six refining bases in the southern cities of Maoming, Guangzhou, Huizhou and Quanzhou and the northern cities of Tianjin and Caofeidian, each with an annual capacity of 20 million tons, or around 401,600 barrels per day.

In the transportation vertical, it is estimated that over \$700 billion will be invested in transportation over the next five years, with \$300 billion in railways over the next two years, and \$15 billion annually for subways. China's central government has recently accelerated its infrastructure spending and approved a number of infrastructure projects, including the extension of railway mileage by an additional 50% to 120,000 km by 2020, from approximately 80,000 km at the end of 2008.

We believe that most of the infrastructure investments mentioned above will directly benefit China Fire, as they all require fire protection products and services.

In addition to our focus on expanding our market leadership, we will continue to invest in technological innovation and aim to deliver new products with leading technologies and strong potential market demand. We will increase our efforts in registering our intellectual property rights and in the crackdown on infringing products. We will continue to proactively participate in the development of various industry standards and code enhancements in light of its leading fire safety technologies. We will also enthusiastically invest into our research and development, as we strive to yield a strong pipeline of practical as well as patentable innovations.

As we march towards our long-term ambition to become a global leader in fire protection, we will actively pursue fire protection projects and product sales in international markets. I'm pleased to report two new contract wins in international markets totaling more than \$3 million. The first is a \$2.1 million contract in India, as China Fire will serve as the total fire protection solution provider for BALCO captive power plant. China Fire will be responsible for implementing the entire fire protection system for the project, including engineering, procurement, construction, monitoring, technical guidance and maintenance. The second is a \$1.1 million contract in Indonesia. China Fire will serve as the fire safety products provider for the PLTU 3 BANTEN power station project. Apart from being the fire safety products provider, China Fire will also provide design, engineering, monitoring and technical guidance for the project. Under the contract, China Fire will provide both extinguishment and detection products.

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Leveraging our solid balance sheet and cash flows, we will proactively explore strategic merger and acquisition targets. Strictly speaking, we expect that all of our M&A transactions will be accretive to earnings, and complementary to our core fire protection business. 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. We intend to leverage our brand, our technical expertise, and our broad distribution to drive synergistic revenue opportunities.

Finally, while we are focused on executing our growth strategies, we are also optimizing our balance sheet and maximizing cash flows. We have adopted tighter credit controls, implemented more proactive receivable collection policies, and enforced stricter accounts payable procedures. We are also reviewing and improving our internal controls, talent management, and financial planning system.

Summary

We are indebted to our outstanding and dedicated employees, and I express my sincerest appreciation to each of them. We also thank our Board of Directors for its disciplined guidance and our customers who continue to trust and rely on our products and services. We thank all of our shareholders for your continued support.

We will continue to work diligently to optimize shareholder value by focusing on growing our business strategically and profitably, by capitalizing on great opportunities, and by expanding our technical and market leadership. We continue to be excited with our growth prospects in our core iron and steel market and customer base. We also are excited with our success in the energy, petrochemical, and transportation verticals, as well as our new contract wins in the international market. I am confident that China Fire will emerge an even stronger company in the future.

Sincerely,

/s/ Gangjin Li

Gangjin Li

Chairman of the Board

China Fire & Security Group, Inc