

SMARTHEAT INC.
Form DEF 14A
October 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

SmartHeat Inc.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Copies of all communications to:

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SMARTHEAT INC.
A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110027
+86 (24) 2519-7699

October 9, 2009

To The Stockholders of SmartHeat Inc.:

You are cordially invited to attend the 2009 annual meeting of stockholders of SmartHeat Inc. on Wednesday, November 18, 2009 (China time) at our Corporate offices, A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China commencing at 10:00 a.m. (local time).

At the annual meeting, you will be asked to vote to elect five directors to serve until the 2010 annual meeting of shareholders and to ratify the appointment of Goldman Parks Kurland Mohidin, LLP as our independent auditors.

The notice of the annual meeting and proxy statement accompanying this letter provide information concerning matters to be considered and acted upon at the annual meeting. We are also including our annual report on Form 10-K for 2008. During the annual meeting we will provide a report on our operations, followed by a time for questions and answers.

Whether or not you plan to attend the annual meeting, we encourage you to sign and return the enclosed proxy card as promptly as possible in the enclosed postage paid envelope so that your shares are represented at the meeting. Regardless of the number of shares you own, your vote is important.

Thank you for your continued interest and support.

Sincerely,

Mr. Jun Wang
Chairman of the Board, Chief Executive Officer and President

Enclosures

SMARTHEAT INC.
A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110027

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER 18, 2009 (China time)

October 9, 2009

NOTICE IS HEREBY GIVEN that an Annual Meeting of the Stockholders of SmartHeat Inc. (the "Company") will be held on Wednesday, November 18th, 2009 (China time) at our Corporate offices, A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China commencing at 10:00 a.m. (local time) for the purposes of considering and acting upon the following proposals:

1. To elect five directors to the board of directors (the "Board of Directors") of the Company to serve until the next annual meeting of stockholders held to elect directors and until their successors are elected and qualified;
2. To ratify the appointment of Goldman Parks Kurland Mohidin, LLP as the Company's independent auditors; and
3. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

A proxy statement describing the matters to be considered at the annual meeting is attached to this notice. Only shareholders of record at the close of business on September 25, 2009 are entitled to notice of, and to vote at, the meeting and any adjournments thereof. By submitting your proxy by signing and returning the enclosed proxy card, you authorize Jun Wang, SmartHeat's Chairman, Chief Executive Officer and President, and Zhijuan Guo, SmartHeat's Chief Financial Officer and Treasurer, to represent you and vote your shares at the meeting in accordance with your instructions. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any postponements or adjournments of the meeting.

Whether or not you plan to be present at the meeting, we urge you to vote your shares promptly. You can vote your shares in advance of the meeting by completing and returning the enclosed proxy card. This notice, the attached Proxy Statement, the accompanying proxy card and our 2008 Annual Report (which is not part of the proxy soliciting materials) are first being mailed to stockholders on or about October 9, 2009.

By Order of the Board of Directors

Mr. Jun Wang,
Chairman of the Board, Chief Executive Officer and President
October 9, 2009

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON NOVEMBER 18, 2009 (China time)

SmartHeat Inc. notice of annual meeting, proxy statement, proxy card and the annual report on Form 10-K for the year ended December 31, 2008 are also available to you on the Internet at www.smartheatinc.com.

SMARTHEAT INC.
A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110027

PROXY STATEMENT

2009 Annual Meeting of Shareholders

November 18, 2009 (China time)

The board of directors of SmartHeat Inc. is soliciting proxies for use at the annual meeting of shareholders to be held at our Corporate offices, A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang China commencing at 10:00 a.m., (local time), and at any adjournments thereof. Distribution to shareholders of the attached notice of annual meeting, this proxy statement, the enclosed proxy card, and our annual report on Form 10-K for 2008 (which is not part of the proxy soliciting materials) is scheduled to begin on or about October 9, 2009 to each shareholder of record at the close of business on September 25, 2009, the "record date" set for this meeting.

QUESTIONS AND ANSWERS

WHO MAY ATTEND THE ANNUAL MEETING?

All stockholders who held shares of our common stock on September 25, 2009 may attend. If your stock is held in the name of a broker, bank, or other holder of record, often referred to as "in street name," just bring a copy of your brokerage account statement or a proxy card which you can get from your broker, bank or other holder of record of your stock.

WHO CAN VOTE AT THE MEETING?

The record date for the 2009 Annual Meeting of Stockholders is September 25, 2009. The record date was established by our Board of Directors. Stockholders of record at the close of business on the record date are entitled to:

- (a) receive notice of the meeting; and
- (b) vote at the meeting and any adjournments or postponements of the meeting.

On the record date, 32,756,575 shares of our common stock were outstanding. Each stockholder is entitled to one vote for each share of common stock held on the record date, as further described under "Voting Securities," in this Proxy Statement.

HOW DO I VOTE?

You may vote in person at the meeting or you may appoint a proxy, by mail, to vote your shares. If you return a signed card but do not provide voting instructions, your shares will be voted FOR the proposal to be voted on at the meeting.

WHAT ARE THE DIFFERENT METHODS THAT I CAN USE TO VOTE MY SHARES OF COMMON STOCK?

- (a) By Written Proxy: Stockholders of record can vote by marking, signing, and timely returning the enclosed proxy card. Street name or beneficial holders must follow the directions provided by their broker, bank, or other nominee in

order to direct such broker, bank, or nominee how to vote.

(b) In Person: All stockholders may vote in person at the meeting. Street names or beneficial holders must obtain a legal proxy from their broker, bank, or nominee prior to the meeting in order to vote in person.

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HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?

At least a majority of the holders of our outstanding shares of common stock, as of the record date, must be present at the annual meeting in order to hold the annual meeting and conduct business. This is called a quorum. Shares of our common stock are counted as present at the annual meeting if the holder of such shares:

- (a) is present and votes in person at the annual meeting; or
- (b) has properly submitted a proxy card.

Abstentions are counted as present for the purpose of determining the presence of a quorum.

CAN I CHANGE MY VOTE AFTER I RETURN MY PROXY CARD?

Yes. You may revoke your proxy card at any time before its exercise at the Annual Meeting by giving our Secretary a written notice revoking your proxy card, or a duly executed proxy bearing a later date, or by attendance at the Annual Meeting and electing to vote in person.

WILL MY STOCK BE VOTED IF I DO NOT PROVIDE MY PROXY?

Your stock may be voted if it is held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority under the rules of The NASDAQ Stock Market, Inc., or NASDAQ, to vote stock for which their customers do not provide voting instructions on certain "routine" matters. We believe that the uncontested election of directors is considered a routine matter for which brokerage firms may vote stock that is held in the name of brokerage firms but does not have voting instructions from you.

HOW MANY VOTES ARE NEEDED TO APPROVE OUR PROPOSALS?

The affirmative vote of a plurality of the shares of common stock present in person or by proxy and entitled to vote is required for the election of a director. The affirmative vote of a majority of the votes cast on Proposal No. 2 is required to ratify the appointment of our independent auditors. Other matters that may properly come before the annual meeting may require a majority or more than a majority vote under our By-laws, the laws of the state of Nevada, our Articles of Incorporation, or other applicable laws.

WHO PAYS FOR THIS PROXY SOLICITATION?

We do. In addition to sending you these materials, some of our employees may contact you by telephone, by mail, by fax, by email, or in person. None of these employees will receive any extra compensation for doing this.

WHY IS SMARTHEAT SEEKING STOCKHOLDER APPROVAL FOR THESE PROPOSALS?

Proposal No. 1 : The General Corporation Law of the State of Nevada and rules applicable to the Company as a result of the listing of our common stock on The Nasdaq Stock Market requires corporations to hold elections for directors each year.

Proposal No. 2 : The Company appointed Goldman Parks Kurland Mohidin, LLP to serve as the Company's independent auditors for the 2009 fiscal year. The Company elects to have its stockholders ratify such appointment.

VOTING SECURITIES

Our \$.001 par value common stock is the only class of capital stock authorized to vote by our Articles of Incorporation. The number of shares of our common stock which may be voted at the meeting or any adjournment thereof is 32,756,575 shares, which was the number of shares outstanding as of September 25, 2009. Each stockholder is entitled to one vote for each share of our common stock held. Votes will be tabulated by an inspector of election appointed by our Board of Directors.

DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS

Only one annual report and this proxy statement will be delivered to multiple stockholders sharing an address unless we have received contrary instructions from one or more of the stockholders. Upon written or oral request, the Company will deliver a separate copy of the annual report and this proxy statement to a stockholder at a shared address to which a single copy of the annual report and proxy statement was delivered. If you wish to receive a separate copy of the annual report or this proxy statement, please notify the Company by calling or sending a letter to the Corporate Secretary of the Company, SmartHeat Inc., A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110027. The Company's telephone number is +86 (24) 2519-7699. If requested, the Company will also provide such persons with copies of any exhibit to the Annual Report on Form 10-K upon the payment of a fee limited to the Company's reasonable expenses in furnishing such exhibits.

PROPOSAL FOR ACTION AT THE ANNUAL MEETING

Proposal One:
Election of Directors

Our Articles of Incorporation and By-laws provide that the Board of Directors shall consist of at least one but not more than ten directors, the exact number of which may be fixed and changed from time to time by ordinary resolution of the Board of Directors or the shareholders of the Corporation. The Board of Directors has adopted a resolution establishing five (5) as the number of directors of the Company.

Our Articles of Incorporation and By-laws provide that the Board of Directors shall be elected at each annual meeting. Based on the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated its current members to be re-elected for another term.

The persons named in the accompanying proxy card intend to vote such proxy in favor of the election of the nominees named below, who are currently directors, unless authority to vote for the director is withheld in the proxy. Although the Board of Directors has no reason to believe that the nominees will be unable to serve as a director, if one of the nominees withdraws or otherwise becomes unavailable to serve, the persons named as proxies will vote for any substitute nominee designated by the Board of Directors, unless contrary instructions are given on the proxy.

The affirmative vote of a plurality of the shares of our common stock present in person or by proxy at the meeting and entitled to vote is required for the election of directors. Proxies for which authority to vote for the nominee is withheld and broker non-votes will be tabulated for the purpose of computing the number of shares of our common stock present for purposes of determining the presence of a quorum for the meeting. They will have no effect on the outcome of the election of the directors.

Our Board of Directors unanimously recommends a vote FOR the nominees listed below.

NOMINEES

Set forth below is information with respect to the nominees for election as directors.

Name and Business Experience

Jun Wang, Chairman of the Board of Directors, Chief Executive Officer and President, Age 42

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Mr. Wang is one of the original founders of Taiyu in 2002. Prior to that, from 2000 to 2002, he was the Vice General Manager of Beijing HotNet Company. From 1996 to 1999, he was a sales manager for Honeywell International Inc. From 1994 to 1996, he was a sales manager for Alfa Laval. Mr. Wang obtained his Master's degree in Engineering from Tsinghua University in 1989.

Arnold Staloff, Director, Age 64

Mr. Staloff has served on the Boards of Directors of Exchange Lab Inc. since 2001, AgFeed Industries, Inc. since 2007, Deer Consumer Products, Inc. since 2009, and Shiner International Inc. since 2007. From December 2005 to May 2007, Mr. Staloff served as Chairman of the Board of SFB Market Systems, Inc., a New Jersey-based company that provides technology solutions for the management and generation of options series data. From March 2003 to December 2005, Mr. Staloff was an independent consultant. From June 1990 to March 2003, Mr. Staloff served as President and Chief Executive Officer of Bloom Staloff Corporation, an equity and options market-making firm and foreign currency options floor broker. Additionally, Mr. Staloff served on the Board of Directors of Lehman Brothers Derivative Products Inc. from 1998 until 2008 and Lehman Brothers Financial Products Inc. from 1994 until 2008. Mr. Staloff holds a Bachelor of Business Administration from the University of Miami. Mr. Staloff has been appointed to each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of SmartHeat.

Weiguo Wang, Director, Age 45

Dr. Wang serves as Assistant Secretary General of the China Standardization Committee on Boilers and Pressure Vessels, a position he has held since March 2005. Additionally, Dr. Wang has served as a Director of the China Special Equipment Inspection and Research Agency since January 2007 and Deputy General Manager of Boilers Standard (Beijing) Technology Services Center Co., Ltd. since March 2004. From July 2001 to December 2003, Dr. Wang was a teacher at Tianjin University, China. Mr. Wang holds a Bachelor's degree in Mechanics, a Master's degree in Fluid Mechanics and a PhD in Fluid Mechanics, all from Beijing University. Dr. Wang has been appointed to each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of SmartHeat.

Wenbin Lin, Director, Age 64

Mr. Lin is one of the original founders of Taiyu in 2002. From December 2003 to October 2004, Mr. Lin served as Deputy Chairman and General Manager of Shenyang Huanggu Thermoelectricity Heating Inc. From November 2002 to December 2003, Mr. Lin served as Chairman and General Manager of Shenyang Heat Power Co. Ltd. From September 1999 to May 2002, Mr. Lin served as Chairman of Shenyang Thermoelectric Corp. From January 1991 to August 1999, Mr. Lin held a variety of positions within the government of Shenyang City in the PRC, including Director of the Economic Development & Reform Commission from February 1998 to August 1999, Director of Shenyang City's Economics & Trade Commission from May 1995 to January 1998 and Deputy Director for the Economic Planning Commission from January 1991 to April 1995. Mr. Lin holds a Bachelor's degree in Press Machinery from China's Anshan Steel Technical College. Mr. Lin has been appointed to each of the Compensation Committee and Nominating and Corporate Governance Committee of SmartHeat.

Xin Li, Director, Age 38

Mr. Li brings more than a decade of corporate governance and industrial operations management experience to SmartHeat. He is a renowned management consultant in China. He is currently the general manager of Beijing ShengGao Consulting Co., Ltd, a strategic advisory firm founded by him more than 10 years ago that focuses on providing strategic guidance and management training to global companies. He also serves as an independent director and chairs the audit and various governance committees at several large Chinese domestic companies not listed in the

United States. Mr. Li is a prolific writer in strategies and management issues. He has authored several books in the areas of management science and strategic planning. Mr. Li is proficient in Mandarin and English. He has a MBA and is a Research Fellow at the Management Science Center of Beijing University. Mr. Li has been appointed to each of the Compensation Committee and Nominating and Corporate Governance Committee of SmartHeat.

EXECUTIVE OFFICERS

Our executive officers and their ages as of September 25, 2009 are as follows:

Please refer to the biography of Mr. Jun Wang set forth above.

Zhijuan Guo, CFO & Treasurer, Age 44

Ms. Guo was appointed Chief Financial Officer of Taiyu in 2002. Prior to that time, from December 2000 to June 2002, she served as the Production Planning Director of Shenyang Thermoelectric Co. Ltd. From March 1999 to November 2000, she served as Auditing Director of Shenyang Dongyu Group Corp. From July 1993 to February 1999, Ms. Guo served as Finance Manager of Shenyang Dongyu Real Estate Development Company. Ms. Guo obtained her MBA degree from Shenyang NorthEastern University in 2001.

Huajun Ai, Corporate Secretary, Age 38

Ms. Ai joined Taiyu in 2002 as Corporate Secretary. Prior to that time, from December 2000 to October 2002, she served as an accountant at Shenyang Dongyu International Trade Co., Ltd. From July 1994 to November 2000, Ms. Ai served as an accountant at Northeast Jincheng Industrial Corp. Ms. Ai obtained her Bachelor's degree in Foreign Trade Accounting from Shenyang North Eastern University in 1994.

CORPORATE GOVERNANCE

INDEPENDENCE OF DIRECTORS

Subject to certain exceptions, under the listing standards of NASDAQ, a listed company's board of directors must consist of a majority of independent directors. Currently, our board of directors has determined that each of Messers. Staloff, Li, and Dr. Wang are independent directors for purposes of the NASDAQ's listed company standards currently in effect and approved by the SEC and all applicable rules and regulations of the SEC. We have established the following standing committees of the board: Audit, Compensation, and Corporate Governance and Nominating. All members of the Audit Committee and a majority of the members of the Compensation and Nominating and Corporate Governance Committees satisfy the "independence" standards applicable to members of each such committee. The board of directors made this affirmative determination regarding these directors' independence based on discussion with the directors and on its review of the directors' responses to a standard questionnaire regarding employment and compensation history; affiliations, family and other relationships; and transactions with the Company. The board of directors considered relationships and transactions between each director or any member of his immediate family and the Company and its subsidiaries and affiliates. The purpose of the board of director's review with respect to each director was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent under the NASDAQ rules.

MEETINGS OF THE BOARD OF DIRECTORS

Our Board of Directors held three regular meetings and no special meetings during fiscal year 2008. Each director attended at least 75% of the meetings of the Board of Directors and the Board committees on which he served in fiscal year 2008. Under our Corporate Governance Guidelines, directors are expected to attend meetings of our Board of Directors and committees of which he is a member and to spend the time necessary to properly discharge his respective duties and responsibilities.

COMMITTEES OF BOARD OF DIRECTORS

Audit Committee

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We established our Audit Committee in June of 2008. The Audit Committee consists of Messrs. Staloff, Li and Dr. Wang, each of whom is an independent director. Mr. Staloff, Chairman of the Audit Committee, is an “audit committee financial expert” as defined under Item 407(d) of Regulation S-K. The purpose of the Audit Committee is to represent and assist our board of directors in its general oversight of our accounting and financial reporting processes, audits of the financial statements and internal control and audit functions.

As more fully described in its charter, the functions of the Audit Committee include the following:

- appointment of independent auditors, determination of their compensation and oversight of their work;
- review the arrangements for and scope of the audit by independent auditors;
- review the independence of the independent auditors;
- consider the adequacy and effectiveness of the internal controls over financial reporting;
- pre-approve audit and non-audit services;
- establish procedures regarding complaints relating to accounting, internal accounting controls, or auditing matters;
- review and approve any related party transactions; and
- discuss with management and the independent auditors our draft quarterly interim and annual financial statements and key accounting and reporting matters.

The board of directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee Charter is posted on our website at www.smartheatinc.com.

Compensation Committee

We established our Compensation Committee in June of 2008. The Compensation Committee consists of Messrs. Staloff, Li, and Dr. Wang, each of whom is an independent director, and Mr. Lin. Dr. Wang is the Chairman of the Compensation Committee. The Compensation Committee is responsible for the design, review, recommendation and approval of compensation arrangements for our directors, executive officers and key employees, and for the administration of our equity incentive plans, including the approval of grants under such plans to our employees, consultants and directors. The Compensation Committee also reviews and determines compensation of our executive officers, including our Chief Executive Officer. The board of directors has adopted a written charter for the Compensation Committee. A current copy of the Compensation Committee Charter is posted on our website at www.smartheatinc.com.

The compensation of our executive officers and other employees is composed of base salaries. For 2008, compensation for our officers, including our named executive officers, was determined by our executive officers prior to the establishment of the compensation committee. The compensation committee will review base salaries of the executives considering SmartHeat’s overall financial position and the state of its business. The compensation committee will determine any increase in compensation, with respect to each officer, based on individual performance, level of responsibility, and skills and experience, taking into account the anticipated level of difficulty in replacing such officers and employees with persons of comparable experience, skill and knowledge.

Nominating and Corporate Governance Committee

We established our Nominating and Corporate Governance Committee in June of 2008. The Nominating and Corporate Governance Committee consists of Messrs. Staloff, Li and Dr. Wang, each of whom is an independent

director, and Mr. Lin. Mr. Li is the Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee assists in the selection of director nominees, approves director nominations to be presented for shareholder approval at our annual general meeting and fills any vacancies on our board of directors, considers any nominations of director candidates validly made by shareholders, and reviews and considers developments in corporate governance practices. The board of directors has adopted a written charter for the Nominating and Corporate Governance Committee. A current copy of the Nominating and Corporate Governance Committee Charter is posted on our website at www.smartheatinc.com.

CODE OF BUSINESS CONDUCT AND ETHICS

Our board of directors has adopted a Code of Conduct, which applies to all directors, officers and employees. The purpose of the Code is to promote honest and ethical conduct. The Code is posted on our website located at www.smartheatinc.com, and is available in print, without charge, upon written request to SmartHeat Inc. at A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110027. We intend to post promptly any amendments to or waivers of the Code on our website.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

You may communicate with our directors, individually or as a group, by writing to Board of Directors, SmartHeat Inc., A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110027. All such communications will be forwarded to the relevant director(s), except for solicitations or other matters not related to the Company.

NOMINATION PROCESS

The members of the Nominating and Corporate Governance Committee, other than incumbent director nominees, discuss the qualifications of the director nominees and the needs of the Company. The Nominating and Corporate Governance Committee will consider nominees recommended by our directors and officers. In evaluating director candidates, the Nominating and Corporate Governance Committee considers factors that are in the best interests of the Company and its stockholders, including, but not limited to, the knowledge, experience, integrity and judgment of possible candidates for nomination as directors; the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Nominating and Corporate Governance Committee desires to have represented on the Board of Directors, including familiarity with and experience in our specific industry; the NASDAQ's requirements for directors, including any applicable independence standards and other qualifications and experience; each candidate's ability to devote sufficient time and effort to his or her duties as a director of the Company and, where applicable, prior service as a director of the Company. There are, however, no stated minimum criteria for director nominees. The Nominating and Corporate Governance Committee recommends candidates to the Board of Directors for election at the annual meeting of stockholders.

STOCKHOLDER NOMINATIONS FOR DIRECTORS

Nominations for the election of directors may only be made by the board of directors in consultation with its Nominating and Corporate Governance Committee. A shareholder of record may recommend to the committee a candidate for consideration as a nominee. The committee will consider a shareholder nominee only if a shareholder provides written notice to: SmartHeat Inc., A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110027, Attention: Chairman of the Nominating and Corporate Governance Committee.

In order to provide sufficient time to enable the Nominating and Corporate Governance Committee to evaluate candidates recommended by shareholders in connection with selecting candidates for nomination in connection with SmartHeat's annual meeting of shareholders, the chairman must receive the shareholder's recommendation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary of the mailing of the proxy statement for the annual meeting of shareholders for the preceding year. Each such notice must include the following information about the candidate:

- Name;
- Age;
-

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Business and current residence addresses, as well as residence addresses for the past 20 years;

- Principal occupation or employment and employment history (name and address of employer and job title) for the past 10 years (or such shorter period as the candidate has been in the workforce);
- Educational background;

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- Permission for SmartHeat to conduct a background investigation, including the right to obtain education, employment and credit information;
- The number of shares of SmartHeat’s common stock beneficially owned by the candidate, if any;
- The information that would be required to be disclosed by SmartHeat about the candidate under the rules of the SEC in a proxy statement soliciting proxies for the election of such candidate as a director (which currently includes information required by Items 401, 404 and 405 of Regulation S-K); and
- A signed consent of the nominee to serve as a director of SmartHeat, if elected.

Nominees properly proposed by eligible shareholders will be evaluated by the committee in the same manner as nominees identified by the committee. To date, no shareholder or group of shareholders has put forth any director nominees.

COMPENSATION OF DIRECTORS (2008)

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)	Total (\$)
Jun Wang	-	-	-
Wenbin Lin	-	-	-
Frederic Rittreiser	20,000	2,806(2)	22,806
Arnold Staloff	25,000	2,806(3)	27,806
Weiguo Wang	6,000	-	6,000
Xin Li			