

August 11, 2009

Market Outperform / Speculative Risk

**Q2 Results Ahead of Estimates, Increasing FY EPS, Raising Price Target to \$13**

#### MARKET DATA Intraday - 8/11/2009

|                       |                 |
|-----------------------|-----------------|
| Price                 | \$9.25          |
| Market                | NASDAQ          |
| Target Price          | \$13.00         |
| 52 Wk Hi - Low        | \$9.91 - \$2.25 |
| EV(MM)                | \$214.5         |
| Market Cap(MM)        | \$223.7         |
| Shares Out (MM)       | 24.9            |
| Public Mkt Float (MM) | 89.8            |
| Avg. Daily Vol (000)  | 34.9            |

#### BALANCE SHEET METRICS

|                         |        |
|-------------------------|--------|
| Cash (MM)               | \$2.4  |
| LTD (MM)                | \$0.0  |
| Total Debt/Total Equity | 29.40% |
| Debt/Capital            | 22.7%  |
| Price/Book Value        | \$10.5 |
| Book Value/Share        | \$0.89 |

#### EARNINGS DATA (\$)

| FY - Dec      | 2008A | 2009E | 2010E |
|---------------|-------|-------|-------|
| Q1 (Mar)      | 0.03  | 0.05  | --    |
| Q2 (Jun)      | 0.03  | 0.11  | --    |
| Q3 (Sep)      | 0.18  | 0.28E | --    |
| Q4 (Dec)      | 0.03  | 0.20E | --    |
| Full Year EPS | 0.29  | 0.64E | 0.93E |

#### VALUATION METRICS

|                      |       |       |      |
|----------------------|-------|-------|------|
| Price/Earnings       | 31.9x | 14.5x | 9.9x |
| Long Term EPS Growth | 1.6%  | 1.2%  | 0.5% |

#### INDICES

|             |         |
|-------------|---------|
| DJIA        | 9,242.6 |
| SP-500      | 993.9   |
| NASDAQ      | 1,964.9 |
| Russel 2000 | 560.7   |



SmartHeat reported strong top and bottom line results, beating our estimates, and raised its previous guidance for the full year 2009. Revenues for the quarter grew ~125% Y/Y to \$12.5mm, well ahead of our \$8.1mm estimate. Management cited significant market share expansion in a favorable market environment for energy savings industry as the reason for the strong growth. It should be noted that we had modeled in the traditional seasonal effect with an overallocation of full year revenue to Q3. Current results and subsequent guidance have shown that seasonal patterns are smoothing out as the business scales. The Company benefited significantly from the implementation of China's economic stimulus plan and SmartHeat saw strong growth in all of its product lines and expects to continue to deliver strong earnings growth in the future. Gross profit margin for the quarter expanded over 1000bps to 36.2% from 26% a year ago, primarily due to greater percentage of higher margin PHE Units being sold. Gross profit in terms of dollars increased by 213% to \$4.5mm, above our estimate of \$2.7mm.

Operating income increased by over 250% Y/Y to \$3.1mm in Q2, relative to our expectations of \$1.4mm. This translates to operating margins of 24.4%, representing an 880bps Y/Y improvement. Q2 results reflected a combination of efficient cost management, increased economies of scale due to rapid growth in revenue, as well as improved operating efficiency. Net income came in at \$2.6mm, or \$0.11 per fully diluted share, above our estimate of \$0.05, and represented a 224% Y/Y bottom line growth. This corresponded to a 20.9% net margin, a ~775bps improvement from the same quarter last year. EBITDA for the quarter came in at \$3.2mm, representing a 242% Y/Y growth and a 25.2% margin, compared to a 16.6% margin showed in Q2 FY08.

#### Positive Outlook, Management Raises Guidance

Management of the Company expressed its view that growth momentum will continue throughout 2009 and well into 2010. The demand environment for SmartHeat's plate heat exchange related products stands to benefit significantly from Chinese environmental policy changes, as well as the \$580bil economic stimulus plan. The implementation of the stimulus plan should continue to re-inflate the residential and commercial new construction market as well as support the creation of new nuclear plant facilities. Additionally, the recently completed acquisition of Siping Heat Exchanger Manufacturer, one of China's largest PHE manufacturers, has not only expanded HEAT's production capabilities but also extended its product offerings to new customer segments. SmartHeat's management believes that the current economic slowdown has significantly increased customer awareness towards utilization of energy savings equipment, of which HEAT is the primary beneficiary. Finally, management has indicated that they are seeing positive signs of economic recovery in the 2H09, with much greater customer order flow compared to the first half 2009.

#### Raising Estimates and Price Target

Please see page 2 for full valuation.

In light of these events, management raised its previous guidance for FY09 and provided specific guidance for the upcoming quarter. For the third quarter, historically the strongest seasonal quarter for SmartHeat, the Company expects to earn \$6.8mm in net income on revenues of \$35mm, which corresponds to 57% and 69% Y/Y growth, respectively. The Company expects to report revenues of \$80mm for the full year, a 145% Y/Y growth, and net income of \$15.5mm, a 19.5% Y/Y growth. This is an increase from previous guidance levels of \$79mm in revenues and \$15mm in net income for the full year.

### Strong Balance Sheet

SmartHeat finished the quarter with \$2.4mm in cash and \$6.3mm in total debt, which comes out to a net debt position of only \$3.9mm. As of June 30, 2009, HEAT had a total debt to book value of equity of 29.4% and a net debt to total capital of only 14.1%. Furthermore, the Company had a current ratio of 1.6x, acid-test ratio of 1.1x and an interest coverage ratio of ~39x. These metrics demonstrate that the Company does not represent either short-term liquidity or long-term solvency risk in its current operating form.

### Recent S3 Filing Approved by SEC

SmartHeat had previously filed an S3 (shelf offering) which was subject to an SEC review. This S3 would authorize the company to offer up to \$75mm of new shares to investors through an equity transaction; which was approved this past week. As a company with significant growth prospects over the next several years, we would anticipate the company raising equity capital to fund the expansionary needs, both in working capital, capex as well as potential acquisitions.

We remind investors that management agreed to a 3 year lockup of all of their ownership (~40% of the total outstanding shares) on January 29<sup>th</sup> of 2009. This has aligned their interests with creating long term value in the company and indicates to us that they will be cautious stewards of capital, building the business organically and seeking only strategic and accretive transactions as a means to scale into a larger, sustainable entity.

### Raising Estimates and Price Target

In light of solid Q2 results and continued upbeat management commentary, as well as to reflect increased traction in the petrochemical, retrofit and new construction markets, we have chosen to raise our estimates. We have raised our FY09 revenue estimate to \$80mm and our net income to \$15.5mm, or \$0.64 per fully diluted share, from our previous revenue and EPS estimates of \$75.7mm and \$0.61, respectively. We have also raised our FY10 revenue estimate from \$100mm to \$113mm and our respective EPS estimate from \$0.81 to \$0.93.

We have chosen to reiterate our Market Outperform rating and raise our twelve to eighteen months Price Target from \$10 to \$13. In our opinion, SmartHeat continues to be an exciting growth story, focused on two central themes that have significant Chinese governmental support both from a legislative and financial standpoint, energy efficiency and pollution reduction. At \$13.00 per share, the stock would be trading at 20.5x FY 09 and 14x FY 10 on a P/E basis, compared to the peer group's respective estimates of 19.8x and 16.9x. In our opinion a target price of \$13 is easily justified by SmartHeat's profitability and significant potential growth opportunities. HEAT's 2008 – 2011 CAGR is over 50%, based on our revised estimates, and should come from organic growth as well as other potential strategic acquisitions. This translates to a PEG ratio of 0.9 using a \$13 price target, which indicates that the stock is still cheap even at these levels, both on an absolute basis and compared to the group's average. Please see Table 1 below for the full peer group valuation analysis.

**Table 1: Peer Group Valuation**

| Name                               | Ticker      | Rating            | Price          | Market Value     | EV               | Net Debt/Total Cap | P/E         | P/E         | P/E         | Growth '08 - '11 | PEG        |
|------------------------------------|-------------|-------------------|----------------|------------------|------------------|--------------------|-------------|-------------|-------------|------------------|------------|
|                                    |             |                   |                |                  |                  |                    | 2008        | 2009        | 2010        |                  |            |
| IDEX CORP                          | IEX         | Not Rated         | \$27.17        | \$2,192.4        | \$2,632.4        | 16.3%              | 13.7        | 19.5        | 17.0        | -4.6%            | NA         |
| GRACO INC                          | GGG         | Not Rated         | \$24.77        | \$1,484.3        | \$1,629.0        | 8.8%               | 12.4        | 35.3        | 21.6        | -10.0%           | NA         |
| COLFAX CORP                        | CFX         | Not Rated         | \$11.32        | \$489.4          | \$550.5          | 10.5%              | 9.3         | 12.1        | 14.9        | -16.9%           | NA         |
| SUNOCO INC                         | SUN         | Not Rated         | \$25.65        | \$2,997.9        | \$5,290.9        | 42.8%              | 3.4         | 15.1        | 8.0         | -11.6%           | NA         |
| LENNOX INTERNATIONAL INC           | LII         | Not Rated         | \$34.44        | \$1,922.1        | \$2,142.9        | 9.8%               | 12.7        | 21.0        | 16.9        | -4.9%            | NA         |
| EMCOR GROUP INC                    | EME         | Not Rated         | \$24.24        | \$1,597.0        | \$1,272.6        | -18.1%             | 8.5         | 11.3        | 13.2        | -9.7%            | NA         |
| COMFORT SYSTEMS USA INC            | FIX         | Not Rated         | \$12.06        | \$462.4          | \$351.0          | -23.6%             | 9.7         | 14.6        | 18.6        | -8.5%            | NA         |
| WATSCO INC                         | WSO         | Not Rated         | \$51.71        | \$1,476.4        | \$1,451.3        | -1.7%              | 23.7        | 36.9        | 24.6        | 9.1%             | 2.6        |
| GRAINGER (W W) INC                 | GWV         | Not Rated         | \$88.05        | \$6,482.5        | \$6,601.2        | 1.7%               | 14.6        | 17.6        | 15.9        | 1.4%             | 10.6       |
| WATERFURNACE RENEWABL              | WFI-CA      | Not Rated         | \$23.26        | \$281.3          | \$268.6          | -4.5%              | 14.8        | 19.6        | 16.2        | NA               | NA         |
| ROBBINS & MYERS INC                | RBN         | Not Rated         | \$22.40        | \$735.6          | \$677.6          | -7.6%              | 10.3        | 15.3        | 18.8        | -9.8%            | NA         |
| <b>AVERAGE</b>                     |             |                   |                | <b>\$1,829.2</b> | <b>\$2,078.9</b> | <b>3.1%</b>        | <b>12.1</b> | <b>19.8</b> | <b>16.9</b> | <b>-6.6%</b>     | <b>6.6</b> |
| <b>SMARTHEAT INC</b>               | <b>HEAT</b> | <b>Outperform</b> | <b>\$9.32</b>  | <b>\$225.6</b>   | <b>\$229.5</b>   | <b>1.7%</b>        | <b>32.6</b> | <b>14.7</b> | <b>10.0</b> | <b>52.7%</b>     | <b>0.6</b> |
| <b>Multiples with Price Target</b> |             |                   | <b>\$13.00</b> | <b>314.4</b>     | <b>318.3</b>     |                    | <b>45.5</b> | <b>20.5</b> | <b>14.0</b> | <b>52.7%</b>     | <b>0.9</b> |

| Income Statement                    |          |          |          |           |          |           |          |          |          |         |          |         |         |         |         |          |         |
|-------------------------------------|----------|----------|----------|-----------|----------|-----------|----------|----------|----------|---------|----------|---------|---------|---------|---------|----------|---------|
| All Figures \$MM, except per share  | FY 2006a | FY 2007a | Q1 3/08a | Q2 6/08a  | Q3 9/08a | Q4 12/08a | FY 2008a | Q1 3/09a | Q2 6/09a | Q3 9/09 | Q4 12/09 | FY 2009 | Q1 3/10 | Q2 6/10 | Q3 9/10 | Q4 12/10 | FY 2010 |
| Net Sales                           | 8.2      | 13.3     | 3.1      | 5.6       | 20.7     | 3.3       | 32.7     | 6.2      | 12.5     | 35.8    | 25.5     | 80.0    | 8.4     | 17.2    | 52.7    | 34.9     | 113.3   |
| % growth year-to-year               |          | 62%      | 137%     | 379.5%    | 586.7%   | -57.3%    | 146.2%   | 102%     | 124.9%   | 72.7%   | 664.9%   | 144.7%  | 35.8%   | 37.6%   | 47.5%   | 37.0%    | 41.7%   |
| Cost of Goods Sold                  | 5.7      | 8.7      | 2.1      | 4.1       | 13.3     | 2.2       | 21.7     | 3.9      | 8.0      | 24.0    | 16.8     | 52.7    | 5.5     | 11.4    | 34.3    | 22.9     | 74.1    |
| % of Revenue                        | 69.6%    | 65.3%    | 68.6%    | 74.0%     | 64.1%    | 66.5%     | 66.5%    | 62.8%    | 63.8%    | 67.0%   | 66.0%    | 65.9%   | 65.5%   | 66.0%   | 65.0%   | 65.7%    | 65.4%   |
| % growth year-to-year               |          | -88.6%   | 150.8%   | 444.1%    | 537.9%   | -55.6%    | 150.6%   | 84.6%    | 93.8%    | 80.5%   | 658.9%   | 142.4%  | 41.5%   | 42.4%   | 43.1%   | 36.4%    | 40.7%   |
| Gross Profit                        | 2.5      | 4.6      | 1.0      | 1.4       | 7.4      | 1.1       | 11.0     | 2.3      | 4.5      | 11.8    | 8.7      | 27.3    | 2.9     | 5.8     | 18.5    | 12.0     | 39.2    |
| % of Revenue                        | 30.4%    | 34.7%    | 31.4%    | 26.0%     | 35.9%    | 33.5%     | 33.5%    | 37.2%    | 36.2%    | 33.0%   | 34.0%    | 34.1%   | 34.5%   | 34.0%   | 35.0%   | 34.3%    | 34.6%   |
| % growth year-to-year               |          | NA       | 111.7%   | 258.3%    | 695.2%   | -60.4%    | 137.9%   | 138.8%   | 213.5%   | 58.8%   | 676.9%   | 149.1%  | 26.1%   | 29.3%   | 56.4%   | 38.2%    | 43.6%   |
| Selling expenses                    | 1.2      | 1.7      | 0.2      | 0.4       | 1.1      | (0.1)     | 1.6      | 0.5      | 0.7      | 2.2     | 1.4      | 4.8     | 0.5     | 1.0     | 3.0     | 2.0      | 6.5     |
| % of Revenue                        | 14.4%    | 12.7%    | 6.4%     | 7.4%      | 5.1%     | -3.0%     | 4.8%     | 7.4%     | 5.6%     | 6.2%    | 5.5%     | 6.0%    | 5.9%    | 5.8%    | 5.7%    | 5.7%     | 5.7%    |
| % growth year-to-year               |          | 42.4%    | -9.1%    | 53.4%     | 230.1%   | -111.4%   | -6.9%    | 133.5%   | 70.1%    | 108.2%  | -150.1%  | 204.1%  | 8.5%    | 43.1%   | 36.4%   | 42.9%    | 36.6%   |
| General and administrative expenses | 0.5      | 0.7      | 0.3      | 0.2       | 1.0      | 0.4       | 1.9      | 0.6      | 0.8      | 1.4     | 1.2      | 3.9     | 0.8     | 1.0     | 1.8     | 1.4      | 5.0     |
| % of Revenue                        | 5.6%     | 5.2%     | 9.2%     | 2.9%      | 4.9%     | 11.4%     | 5.7%     | 9.2%     | 6.2%     | 3.9%    | 4.7%     | 4.9%    | 9.5%    | 5.8%    | 3.4%    | 4.0%     | 4.4%    |
| % growth year-to-year               |          | 49.0%    | 80.5%    | 14.8%     | 346.5%   | 139.3%    | 169.4%   | 100.4%   | 374.7%   | 36.7%   | 214.9%   | 112.8%  | 40.5%   | 29.8%   | 28.6%   | 16.7%    | 26.9%   |
| Operating Income                    | 0.9      | 2.2      | 0.5      | 0.9       | 5.4      | 0.8       | 7.5      | 1.3      | 3.1      | 8.2     | 6.1      | 18.6    | 1.6     | 3.8     | 13.7    | 8.6      | 27.7    |
| % of Revenue                        | 10.4%    | 16.9%    | 15.7%    | 15.7%     | 25.9%    | 25.0%     | 23.1%    | 20.6%    | 24.4%    | 22.9%   | 23.8%    | 23.3%   | 19.1%   | 22.4%   | 25.9%   | 24.6%    | 24.4%   |
| % growth year-to-year               |          | 162.6%   | 492.4%   | -13804.5% | 1289.4%  | -53.1%    | 237.2%   | 163.4%   | 251.1%   | 53.2%   | 627.1%   | 146.6%  | 26.0%   | 26.0%   | 66.5%   | 41.4%    | 48.9%   |
| Interest Income                     | 0.10     | 0.2      | 0.1      | 0.1       | 0.1      | 0.1       | 0.4      | 0.0      | 0.1      | 0.1     | 0.1      | 0.2     | 0.1     | 0.1     | 0.1     | 0.1      | 0.4     |
| % of Revenue                        | 1.2%     | 1.3%     | 4.8%     | 2.0%      | 0.3%     | 2.6%      | 1.2%     | 0.3%     | 0.5%     | 0.3%    | 0.3%     | 0.3%    | 1.0%    | 0.5%    | 0.2%    | 0.3%     | 0.3%    |
| % growth year-to-year               |          | 113.2%   | 19.0%    | NA        | 717.7%   | 131.5%    | NA       | NA       | -43.9%   | 22.2%   | -11.5%   | -43.8%  | NA      | NA      | NA      | NA       | NA      |
| Interest Expenses                   | (0.1)    | (0.2)    | (0.1)    | (0.1)     | (0.1)    | (0.1)     | (0.3)    | (0.1)    | (0.1)    | (0.3)   | (0.3)    | (0.7)   | (0.2)   | (0.2)   | (0.2)   | (0.2)    | (0.8)   |
| % of Revenue                        | -0.99%   | -1.7%    | -2.2%    | -1.7%     | -0.5%    | -1.7%     | -1.0%    | -0.9%    | -0.5%    | -0.8%   | -1.1%    | -0.9%   | -2.4%   | -1.2%   | -0.4%   | -0.6%    | -0.7%   |
| % growth year-to-year               |          | NA       | 66.6%    | NA        | NA       | 36.1%     | NA       | NA       | -32.8%   | 208.0%  | 407.7%   | 121.9%  | 278.4%  | 208.8%  | -31.0%  | -31.0%   | 14.8%   |
| Total non-Operating Expenses        | 0.0      | 0.0      | 0.1      | 0.0       | (0.0)    | 0.0       | 0.1      | (0.0)    | 0.0      | (0.2)   | (0.2)    | (0.4)   | (0.1)   | (0.1)   | (0.1)   | (0.1)    | (0.4)   |
| % of Revenue                        | 0.5%     | 0.3%     | 3.2%     | 0.4%      | -0.2%    | 0.4%      | 0.3%     | -0.6%    | 0.2%     | -0.6%   | -0.8%    | -0.6%   | -1.4%   | -0.6%   | -0.2%   | -0.2%    | -0.4%   |
| % growth year-to-year               |          | NA       | -13.6%   | -52.0%    | -62.8%   | -196.4%   | 164.9%   | -138.0%  | 7.6%     | 424.1%  | NA       | -576.3% | 209.2%  | -523.8% | -55.7%  | -59.0%   | -8.6%   |
| Income Before Taxes                 | 0.9      | 2.3      | 0.6      | 0.9       | 5.3      | 0.8       | 7.6      | 1.24     | 3.1      | 8.0     | 5.8      | 18.2    | 1.5     | 3.7     | 13.6    | 8.5      | 27.3    |
| % of Revenue                        | 10.9%    | 17.1%    | 18.9%    | 16.1%     | 25.6%    | 25.4%     | 23.4%    | 20.0%    | 24.6%    | 22.3%   | 23.0%    | 22.7%   | 17.7%   | 21.8%   | 25.7%   | 24.3%    | 24.1%   |
| % growth year-to-year               |          | 154.8%   | 198.4%   | 2007.9%   | 1847.1%  | -51.9%    | 236.1%   | 112.7%   | 244.8%   | 50.3%   | 590.2%   | 137.8%  | 20.5%   | 21.5%   | 69.9%   | 45%      | 50.3%   |
| Income Tax Expense                  | 0.1      | 0.2      | 0.1      | 0.2       | 1.0      | 0.0       | 1.3      | 0.2      | 0.5      | 1.2     | 0.9      | 2.8     | 0.2     | 0.6     | 2.0     | 1.3      | 4.1     |
| Tax Rate %                          | 8.14%    | 7.7%     | 18.0%    | 18.0%     | 18.5%    | 5.5%      | 16.9%    | 17.6%    | 15.0%    | 15.0%   | 15.2%    | 15.2%   | 15.0%   | 15.0%   | 15.0%   | 15.0%    | 15.0%   |
| Minority Interest                   | 0.0      | (0.0)    | 0.0      | 0.0       | 0.0      | 0.0       | 0.0      |          |          | 0.0     | 0.0      | 0.0     | 0.0     | 0.0     | 0.0     | 0.0      | 0.0     |
| % of Revenue                        | -100%    | 0.0%     | NA       | 0.0%      | 0.1%     | 0.0%      | 0.0%     |          |          |         |          | 0.0%    |         |         |         |          | 0.0%    |
| % growth year-to-year               |          | NA       | NA       | NA        | NA       | NA        | NA       |          |          |         |          |         |         |         |         |          |         |
| Net Income                          | 0.8      | 2.1      | 0.5      | 0.7       | 4.3      | 0.8       | 6.3      | 1.1      | 2.6      | 6.8     | 5.0      | 15.5    | 1.3     | 3.2     | 11.5    | 7.2      | 23.2    |
| % of Revenue                        | 10.1%    | 15.8%    | 15.5%    | 13.2%     | 20.9%    | 24.0%     | 19.4%    | 17.9%    | 20.9%    | 19.0%   | 19.5%    | 19.4%   | 15.1%   | 18.5%   | 21.9%   | 20.7%    | 20.5%   |
| % growth year-to-year               |          | 152.0%   | 144.6%   | 22780.7%  | 1865.5%  | -52.3%    | 201.9%   | 132.9%   | 257.4%   | 56.9%   | 520.9%   | 144.5%  | 14.1%   | 21.5%   | 69.9%   | 45.1%    | 49.7%   |
| Proforma EPS                        | 0.05     | 0.11     | 0.03     | 0.03      | 0.18     | 0.03      | 0.29     | 0.05     | 0.11     | 0.28    | 0.20     | 0.64    | 0.05    | 0.13    | 0.46    | 0.29     | 0.93    |
| % growth year-to-year               |          | 152.0%   | 144.6%   | 19204.8%  | 1411.5%  | -63.6%    | 151.9%   | 78.1%    | 223.7%   | 54.2%   | 511.2%   | 122.5%  | 11.6%   | 18.3%   | 66.5%   | 42.2%    | 46.0%   |
| Weighted Avg. S/O (mil)-fd          | 18.5     | 18.5     | 18.5     | 21.9      | 24.1     | 24.2      | 22.2     | 24.2     | 24.2     | 24.5    | 24.6     | 24.4    | 24.7    | 24.9    | 25.0    | 25.1     | 24.9    |
| EBITDA                              | 0.9      | 2.3      | 0.5      | 0.9       | 5.4      | 0.9       | 7.8      | 1.4      | 3.2      | 8.3     | 6.2      | 19.0    | 1.7     | 3.9     | 13.8    | 8.7      | 28.1    |
| % of Revenue                        | 11.2%    | 17.0%    | 17.4%    | 16.6%     | 26.2%    | 27.4%     | 23.9%    | 22.1%    | 25.2%    | 23.2%   | 24.2%    | 23.7%   | 20.2%   | 22.9%   | 26.1%   | 24.8%    | 24.8%   |
| % growth year-to-year               |          | 145.7%   | 427.1%   | 6655.0%   | 1088.8%  | -49.0%    | 245.0%   | 155.9%   | 241.9%   | 53.1%   | 575.0%   | 143.6%  | 24.2%   | 25.2%   | 65.7%   | 40.8%    | 47.9%   |
| Depreciation & Amortization         | 0.1      | 0.1      | 0.1      | 0.1       | 0.1      | 0.1       | 0.3      | 0.1      | 0.1      | 0.1     | 0.1      | 0.4     | 0.1     | 0.1     | 0.1     | 0.1      | 0.4     |
| % of Revenue                        | 0.8%     | 0.8%     | 1.7%     | 0.9%      | 0.3%     | 2.4%      | 0.8%     | 1.6%     | 0.8%     | 0.3%    | 0.4%     | 0.5%    | 1.2%    | 0.6%    | 0.2%    | 0.3%     | 0.3%    |
| % growth year-to-year               |          | 53.9%    | 160.1%   | 160.1%    | -1.6%    | 498.3%    | 142.8%   | 85.9%    | 87.1%    | 39.5%   | 23.6%    | 53.9%   | 0.7%    | 0.0%    | 0.0%    | 0.0%     | 0.2%    |

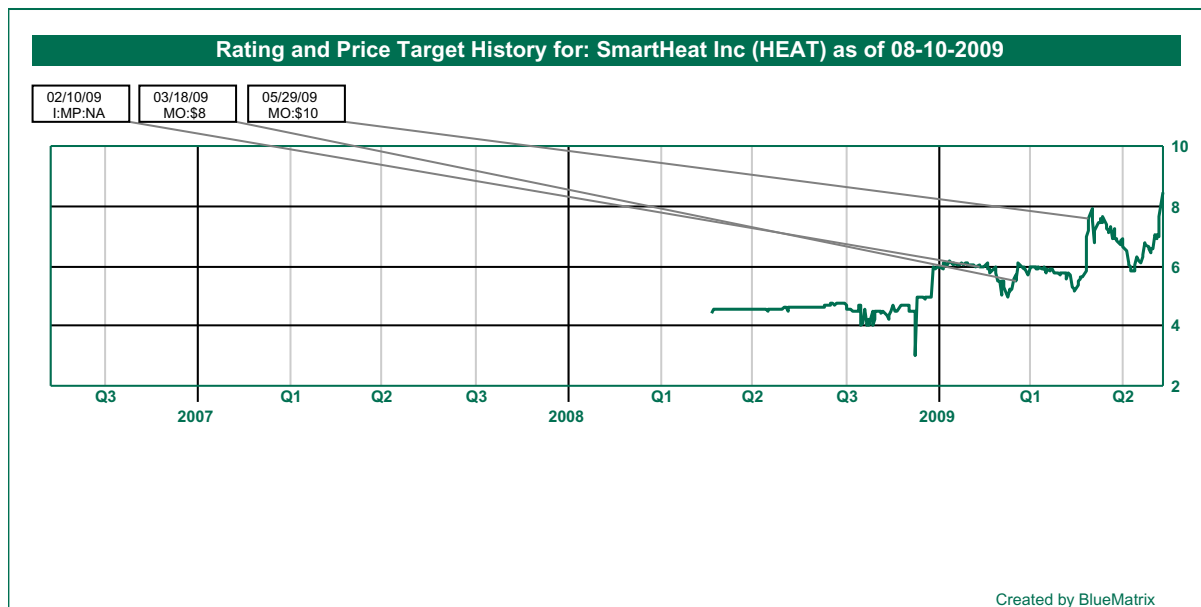
**RODMAN & RENSHAW RATING SYSTEM:** Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector, as defined by First Call. The price objective is calculated to estimate the potential movement in price a given equity could achieve given certain targets are met over a defined time horizon. Price objectives are subject to exogenous factors including industry events and market volatility. The risk assessment evaluates the company specific risk and accounts for the following factors, maturity of market, maturity of technology, maturity of firm, cash utilization, and valuation considerations. Potential factors contributing to risk: relatively undefined market, new technologies, immature firm, high cash burn rates, intrinsic value weighted toward future earnings or events.

### RETURN ASSESSMENT

- Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Perform (Hold): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

### RISK ASSESSMENT

- Speculative - The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- Aggressive - The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- Moderate - The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



### RATING SUMMARY

| Rating                  | Count | Percent | IB Serv./Past 12 Mos |         |
|-------------------------|-------|---------|----------------------|---------|
|                         |       |         | Count                | Percent |
| Market Outperform(MO)   | 76    | 70.40%  | 13                   | 17.11%  |
| Market Perform(MP)      | 24    | 22.20%  | 5                    | 20.83%  |
| Market Underperform(MU) | 1     | 0.90%   | 0                    | 0.00%   |
| Under Review(UR)        | 7     | 6.50%   | 2                    | 28.57%  |
| Total                   | 108   | 100%    | 20                   | 100%    |

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of

securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.

#### **ADDITIONAL DISCLOSURES**

Rodman & Renshaw, LLC. (the "Firm") is a member of FINRA and SIPC and a registered U.S. Broker-Dealer.

#### **ANALYST CERTIFICATION**

I, Joe Giamichael, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities.

None of the research analysts or the research analyst's household has a financial interest in the securities of SmartHeat Inc (including, without limitation, any option, right, warrant, future, long or short position).

As of Jun 30 2009 neither the Firm nor its affiliates beneficially own 1% or more of any class of common equity securities of SmartHeat Inc.

Neither the research analyst nor the Firm has any material conflict of interest with SmartHeat Inc, of which the research analyst knows or has reason to know at the time of publication of this research report.

The research analyst principally responsible for preparation of the report does not receive compensation that is based upon any specific investment banking services or transaction but is compensated based on factors including total revenue and profitability of the Firm, a substantial portion of which is derived from investment banking services.

The Firm or its affiliates did not receive compensation from SmartHeat Inc for any investment banking services within twelve months before, but intends to seek compensation from the companies mentioned in this report for investment banking services within three months, following publication of the research report.

Neither the research analyst nor any member of the research analyst's household nor the Firm serves as an officer, director or advisory board member of SmartHeat Inc.

The Firm does make a market in SmartHeat Inc securities as of the date of this research report.

Any opinions expressed herein are statements of our judgment as of the date of publication and are subject to change without notice.

Reproduction without written permission is prohibited. The intraday prices of securities mentioned in this report are as of Aug 11 2009. Additional information is available to clients upon written request. For complete research report on SmartHeat Inc, please call (212) 356-0500.

Readers are advised that this analysis report is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Past performance is no guarantee of future results.