CHINA RECYCLING ENERGY CORP
Form 10QSB/A
May 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2007**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _________ to _________

0-12536

(Commission File Number)

CHINA RECYCLING ENERGY CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada
(State or Other jurisdiction of Incorporation or Organization)

90-0093373
(IRS Employer Identification No.)

429 Guangdong Road
Shanghai, People's Republic of China 200001
(Address of Principal Executive Offices)

Issuer's Telephone Number, Including Area Code: **(86 21) 6336-8686**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ]Yes [X]No

As of September 30, 2007, there were 17,147,268 shares of $.001 par value common stock outstanding.

Transitional Small Business Disclosure Format: [ ]Yes [X] No

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CHINA RECYCLING ENERGY CORPORATION
(FORMERLY CHINA DIGITAL WIRELESS INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2007
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(RESTATED)

ASSETS		
CURRENT ASSETS		
Cash & cash equivalents	$	6,381
Investment in sales type leases, net		813,857
Interest receivable		699
Total current assets		820,937
INVESTMENT IN SALES TYPE LEASES, NET		7,967,092
TOTAL ASSETS	$	8,788,029
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	3,242,452
Unearned revenue		26,692
Tax payable		467,436
Accrued liabilities and other payables		2,731,052
Advance from shareholder		49,100
Total current liabilities		6,516,732
CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 100,000,000 shares authorized, 17,147,268 shares issued and outstanding		17,148
Additional paid in capital		4,229,845
Statutory reserve		800,809
Accumulated other comprehensive income		817,582
Accumulated deficit		(3,594,087)
Total stockholders' equity		2,271,297
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	8,788,029

See accompanying notes to condensed consolidated financial statements.

CHINA RECYCLING ENERGY CORPORATION
(FORMERLY CHINA DIGITAL WIRELESS INC.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2007 (RESTATED)	**2006**	**2007** (RESTATED)	**2006**
Net sales	$ 9,075,999	$ -	$ 4,294,836	$ -
Cost of sales	(6,981,537)	-	(3,303,719)	-
Gross profit	2,094,462	-	991,117	-
Interest income in sales-type leases	473,075	-	274,689	-
Total operating income	2,567,537	-	1,265,806	-
Operating expenses				
General and administrative expenses	(358,726)	(189,147)	(15,183)	(32,880)
Total operating expenses	(358,726)	(189,147)	(15,183)	(32,880)
Income (loss) from operations	2,208,811	(189,147)	1,250,623	(32,880)
Non-operating income (expenses)				
Other income	210,367	-	1,458	-
Interest (expense) income	80	152	(24)	32
Financial expense	(101)	-	(6)	-
Total non-operating (income) expenses	210,346	152	1,428	32
Income (loss) before income tax	2,419,157	(188,995)	1,252,051	(32,848)
Income tax expense	(399,049)	-	(187,456)	-
Net income (loss) from continuing operations	2,020,108	(188,995)	1,064,595	(32,848)
Income from operations of discontinued component	28,457	85,782	5,352	(111,971)
Net income (loss)	2,048,565	(103,213)	1,069,947	(144,819)
Other comprehensive item				

Foreign currency translation		(220,092)	121,853		83,802		71,055
Comprehensive Income (loss)	$	1,828,473	18,640	$	1,153,749	$	(73,764)
Basic and diluted weighted average shares outstanding		17,147,268	17,147,268		17,147,268		17,147,268
Basic and diluted net earnings per share		0.12	(0.01)		0.06		(0.00)

See accompanying notes to condensed consolidated financial statements.

CHINA RECYCLING ENERGY CORPORATION
(FORMERLY CHINA DIGITAL WIRELESS INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 and 2006
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:	(RESTATED)	
Net income (loss)	$ 2,048,565	$ (103,213)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	-	144,359
Bad debt expense	-	(42,555)
Loss (gain) on disposal of property and equipment	-	476
Deferred tax asset	-	9,656
(Increase) decrease in current assets:		
Accounts receivable	5,842	843,818
Advances to suppliers	770,004	(47,170)
Inventory	-	44,080
Due from related parties	-	(50,531)
Increase (decrease) in current liabilities:		
Accounts payable	3,170,725	(843,977)
Unearned revenue	(7,831)	(12,632)
Advance from customers	(144,529)	(6,399)
Tax payable	466,268	(229,410)
Accrued liabilities and other payables	1,974,834	(14,581)
Due to related parties	-	184,550
Net cash provided by (used in) operating activities	8,283,878	(123,529)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in sales-type leases	(8,586,703)	-
Proceeds on disposal of property and equipment	-	955
Loan to related parties	-	(2,266,997)
Net cash used in investing activities	(8,586,703)	(2,266,042)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advance from shareholder	48,015	-
Net cash provided by financing activities	48,015	-
EFFECT OF EXCHANGE RATE CHANGE ON CASH & CASH EQUIVALENTS	9,066	101,072
NET DECREASE IN CASH & CASH EQUIVALENTS	(254,810)	(2,389,571)
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	252,125	3,578,367

CASH & CASH EQUIVALENTS, END OF PERIOD	$	6,381	$	1,289,868
Supplemental Cash flow data:				
Income tax paid	$	35,281	$	159,190
Interest paid	$	-	$	-

See accompanying notes to condensed consolidated financial statements.

1. ORGANIZATION AND DISCRIPTION OF BUSINESS

China Recycling Energy Corporation (the "Company" or "CREG") (formerly China Digital Wireless, Inc.) was incorporated on May 8, 1980, under the laws of the State of Colorado. The Company, through its subsidiary, Data Technology Co., Ltd. ("TCH"), sells and leases energy saving systems. The businesses of mobile phone distribution and provision of pager and mobile phone value-added information services were discontinued in 2007. On March 8, 2007, the Company changed its name to "China Recycling Energy Corporation". On September 21, 2007, the Company's subsidiary, TCH changed its name to "Shanghai TCH Energy Technology Co., Ltd.".

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first and second quarters of 2007, the Company did not engage in any substantial transactions or activity in connection to these businesses. On May 10, 2007, the Company completely discontinued these businesses. These businesses are reflected in continuing operations for all periods presented based on the criteria for discontinued operations prescribed by Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

On February 1, 2007, the Company's subsidiary, TCH, entered into two TRT Project Joint-Operation Agreements ("Joint-Operation Agreement") with Xi'an Yingfeng Science and Technology Co., Ltd. ("Yingfeng"). Yingfeng is a joint stock company registered in Xi'an, Shaanxi Province, people's republic of China (the "PRC"), and engages in the business of designing, installing, and operating TRT systems and sales of other renewable energy products. In October 2007, the Company terminated the joint operation agreement with Yingfeng and became fully entitled to the rights, titles, benefits and interests in the TRT Projects.

Under the Joint-Operation Agreement, TCH and Yingfeng jointly operate a top gas recovery turbine project ("TRT Project") which designed, constructed, installed and operates a TRT system and leased it to Zhangzhi Iron and Steel Holdings Ltd. ("Zhangzhi"). The total investment costs contributed by TCH are approximately $1,426,000 (equivalent to RMB 10,690,000). TCH provides various forms of investments and properties into the TRT Project including cash, hardware, software, equipments, major components and devices. The construction of the TRT Project was completed and put into operation in August 2007. In October 2007, the Company terminated the joint operation agreement with Yingfeng. TCH became fully entitled to the rights, titles, benefits and interests in the TRT Project and received a monthly rental payment of approximately $147,000 (equivalent to RMB 1,100,000) from Zhangzhi for a lease term of thirteen years. At the end of the lease term, TCH will transfer the rights and titles of the TRT Project to Zhangzhi without cost.

Under another Joint-Operation Agreement, TCH and Yingfeng jointly operate a TRT Project which designed, constructed, installed and operates a TRT system and lease it to Xingtai Iron and Steel Company Ltd. ("Xingtai"). TCH provides various forms of investments and properties into the TRT Project including cash, hardware, software, equipments, major components and devices. The total estimated investment cost of this TRT Project is approximately $3,900,000 (equivalent to RMB 30,000,000). The construction of the TRT Project was completed and put into operation in February 2007. In October 2007, the Company terminated the joint operation agreement with Yingfeng. TCH became fully entitled to all the rights, titles, benefits and interests of the TRT Project and received a monthly rental payment of approximately $116,930 (equivalent to RMB 900,000) from Xingtai for a lease term of five years. At the end of the lease term, TCH will transfer all the rights and titles of the TRT Project to Xingtai without cost.

The unaudited financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company's audited financial statements. The results for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of CREG and, its subsidiaries, Sifang Holdings, and TCH. Substantially all of the Company's revenues are derived from the operations of TCH, which represents substantially all of the Company's consolidated assets and liabilities as of September 30, 2007. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

In preparing these consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the year reported. Actual results may differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

Accounts receivable and concentration of credit risk

Accounts receivable are recorded at the invoiced amounts and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of September 30, 2007, the Company recorded no allowance for doubtful accounts.

Financial instruments that potentially subject the Company to credit risk consist primarily of accounts receivable and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of its clients' financial condition and customer payment practices to minimize collection risk on accounts receivable.

The operations of the Company are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy.

Inventory

Inventory is valued at the lower of cost or market. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method over the estimated lives ranging from 5 to 20 years as follows:

Building	20 years
Vehicle	2 - 5 years
Office and Other Equipment	2 - 5 years
Software	2 - 3 years

Impairment of long-life assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total of the expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying amount of the asset. There has been no impairment as of September 30, 2007.

Sales-type leasing and related revenue recognition

The Company leases TRT systems to Xingtai and Zhangzhi. The Company will transfer all benefits, risks and ownership of the TRT systems to Xingtai and Zhangzhi at the end of each lease term. The Company's investment in the projects is recorded as Sales-type leases in accordance with SFAS No. 13, "Accounting for Leases" and its various amendments and interpretations. The sales and cost of goods sold is recognized at the point of sale. The investment in sales-type lease consists of the sum of the total minimum lease payments receivable less unearned interest income. Unearned interest income is amortized to income over the lease term as to produce a constant periodic rate of return on the net investment in the lease.

Cost of Goods Sold

Cost of revenue consists primarily of purchase price of the two TRT machines, and expenses occurred directly for project construction.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

TCH is governed by the Income Tax Law of the PRC concerning the private-run enterprises in a special district, which are generally subject to tax at a statutory rate of 15% on income reported in the statutory financial statements after appropriated tax adjustments.

There is no income tax for Sifang Holding Co., the holding company of TCH, domiciled in the Cayman Islands. Accordingly, the Company's consolidated financial statements do not present any income tax provisions related to Cayman Islands tax jurisdiction.

The Company does not have any significant deferred tax asset or liability that related to tax jurisdictions not covered by the tax holiday.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, the Company made a comprehensive review of its portfolio of tax positions in accordance with recognition standards established by FIN 48. As a result of the implementation of Interpretation 48, the Company recognized no material adjustments to liabilities or stockholders equity. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits are classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of income. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

Statement of Cash Flows

In accordance with SFAS No. 95, "Statement of Cash Flows," cash flows from the Company's operations is calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Basic and diluted earning per share (EPS)

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted net earning per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. The Company did not have any potentially dilutive common share equivalents as of September 30, 2007 and 2006.

Foreign Currency Translation and Comprehensive Income (Loss)

The Company's functional currency is the Renminbi ("RMB"). For financial reporting purposes, RMB has been translated into United States dollars ("USD") as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the reporting period. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income". Gains and losses resulting from foreign currency transactions are included in income. There has been no significant fluctuation in exchange rate for the conversion of RMB to USD after the balance sheet date.

The Company uses SFAS 130 "Reporting Comprehensive Income". Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's financial statements as substantially all of the Company's operations are conducted in one industry segment. All of the Company's assets are located in the PRC.

New Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value, and expands disclosures about fair value measurements required under the accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for fiscal year, including financial statements for an interim period within the fiscal year. The Company is currently evaluating the impact, if any, that SFAS No. 157 will have on its financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132R

In September 2006, the FASB, issued SFAS, No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132R," which requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. We adopted the provisions of SFAS No. 158 for the year end 2006, and the effect of recognizing the funded status in accumulated other comprehensive income was not significant. The new measurement date requirement applies for fiscal years ending after December 15, 2008.

Considering the Effects of Prior Year Misstatements in Current Year Financial Statements

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company adopted SAB 108 in the fourth quarter of 2006 with no impact on its financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February of 2007 the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is analyzing the potential accounting treatment.

3. NET INVESTMENT IN SALES-TYPE LEASES

Under sales-type leases, TCH leased TRT systems to Xingtai and Zhangzhi with terms of five years and thirteen years, respectively. The components of the net investment in sales-type leases as of September 30, 2007 are as follow:

Total future minimum lease payments receivables	$ 26,854,574
Less: unearned .interest income	(18,073,625)
Net investment in sales - type leases	8,780,949
Current portion	813,857
Noncurrent portion	7,967,092

As of September 30, 2007, the future minimum rentals to be received on non-cancelable sales type leases are as follows:

For the years ended September 30,	
2008	2,978,059
2009	2,978,059
2010	2,978,059
2011	2,978,059
2012	14,942,338
	$ 26,854,574

4. TAX PAYABLE

Tax payable consisted of the following at September 30, 2007:

Business tax payable	$ 54,188
Income tax payable	413,211
Other tax payable	37
	$467,436

5. ACCRUED LIABILITIES AND OTHER PAYABLES

Accrued liabilities and other payables consisted of the following at September 30, 2007**:**

Other payables	$ 2,463,842
Employee welfare payable	222,867
Accrued expenses	44,343
	$ 2,731,052

Other payable mainly consisted of employee training and social insurance payable, short term advances from third parties and payable to Yingfeng for the cost of obtaining the ownership of two TRT projects which was previously owned by Yinfeng for $1,996,374.

6. ADVANCE FROM SHAREHOLDER

Advance from shareholder represented the balances due to a shareholder for $49,100 which is interest free and repayable in the next twelve months.

7. DISCONTINUED OPERATIONS

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first and second quarter of 2007, the Company did not engage in any substantial transaction or activity in connection with these businesses. On May 10, 2007, the Company completely ceased and discontinued these businesses. Accordingly, the results of the discontinued operations have been segregated from continuing operations. The discontinued operations incurred an income of $28,457 and $85,782 for nine months ended September 30, 2007 and 2006, respectively. The income represented the write down of deferred revenue generated from the provision of pager value-added information services.

8. STATUTORY RESERVES

Pursuant to the new corporate law of the PRC effective January 1, 2006, the Company is now only required to maintain one statutory reserve by appropriating from its after-tax profit before declaration or payment of dividends. The statutory reserve represents restricted retained earnings.

Surplus Reserve Fund

The Company is now only required to transfer 10% of its net income, as determined under PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital.

The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

Common Welfare Fund

Common welfare fund is a voluntary fund that the Company can elect to transfer 5% to 10% of its net income to this fund. The Company did not make any contribution to this fund for nine months ended September 30, 2007 and 2006.

This fund can only be utilized on capital items for the collective benefit of the Company's employees, such as construction of dormitories, cafeteria facilities, and other staff welfare facilities. This fund is non-distributable other than upon liquidation.

9. CONTINGENCIES

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company' s results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company's sales, purchases and expenses transactions are denominated in RMB and all of the Company's assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB may require certain supporting documentation in order to affect the remittance.

10. RESTATEMENT

The financial statements for the six months ended June 30, 2007 have been restated to reflect the correction of error for the sales-type leases which were originally accounted for as direct financing leases ; and the write-off of accounts receivable of $3,446,275 in the fourth quarter of 2006 as the Company determined that it had insufficient basis to leave it as an asset.

The following table presents the effects of the restatement adjustment on the accompanying consolidated financial statements as of September 30, 2007 and for the nine and three months ended September 30, 2007:

Nine months ended September 30, 2007	As Originally Reported	As Restated	Net Adjustment
Consolidated Statement of Income and Comprehensive Income			
Sales	$ 810,803	$ 9,075,999	$ 8,265,196
Cost of sales	58,076	6,981,537	6,923,461
Interest income in sales-type leases	-	473,075	473,075
Operating expenses	106,191	358,726	252,535
Income from operations	646,536	2,208,811	1,562,275
Income before income taxes	646,643	2,419,157	1,772,514
Net income	$ 590,798	$ 2,048,565	$ 1,457,767
Comprehensive income	$ 1,349,034	$ 1,828,473	$ 479,439
Net income per common share basic and diluted	$ 0.03	$ 0.12	$ 0.09

Three months ended September 30, 2007	As Originally Reported	As Restated	Net Adjustment
Consolidated Statement of Income and Comprehensive Income			
Sales	$ 413,526	$ 4,294,836	$ 3,881,310
Cost of sales	25,923	3,303,719	3,277,796
Interest income in sales-type leases	-	274,689	274,689
Operating expenses	29,720	15,183	(14,537)
Income from operations	357,883	1,250,623	892,740
Income before income taxes	357,886	1,252,051	894,165
Net income	$ 315,356	$ 1,069,947	$ 754,591
Comprehensive income	$ 545,414	$ 1,153,749	$ 608,335
Net income per common share basic and diluted	$ 0.02	$ 0.06	$ 0.04

	As Originally Reported	As Restated	Net Adjustment
At September 30, 2007			
Total current assets	$ 4,021,624	$ 820,937	$ (3,200,687)
Investment in direct financing leases, net	4,960,395		(4,960,395)
Investment in sales-type leases, net	-	7,967,092	7,967,092
Total assets	8,982,019	8,788,029	(193,990)

	As Originally Reported	As Restated	Net Adjustment
At September 30, 2007			
Total liabilities	4,286,348	6,516,732	2,230,384
Accumulated deficit	(1,921,898)	(3,594,087)	(1,672,689)
Total stockholders' equity	$ 4,695,671	$ 2,271,297	$ (2,424,374)

	As Originally Reported	As Restated	Net Adjustment
Net cash provided by (used in) operating activities	$ 567,026	$ 8,283,878	$ 7,716,852
Net cash provided by (used in) investing activities	(1,723,999)	(8,586,703)	(6,862,704)
Net cash provided by (used in) financing activities	906,144	48,015	(858,129)
Net increase (decrease) in cash and cash equivalents	$ (250,829)	$ (254,810)	$ (3,981)

11. SUBSEQUENT EVENTS

On November 13, 2007, the Company approved the 2007 Non-statutory Stock Option Plan (the "2007 Plan") under the Form S-8 Registration Statement. Pursuant to the 2007 Plan, the Company may issue stock, or grant options at $1.23 per share to acquire the Company's common stock at par value $0.001 (the "Stock"), with an aggregate amount of 3,000,000 shares of the Stock, from time to time to employees and directors of the Company or other individuals, including consultants or advisors, all on the terms and conditions set forth in the 2007 Plan. The vesting terms of options grant under the 2007 Plan are subject to the Non-Statutory Stock Option Agreements for managerial and non-managerial employees. For managerial employees, no more than 15% of the total stock options shall vest and become exercisable on the six month anniversary of the grant date. An additional 15% and 50% of the total stock options shall vest and become exercisable on the first and second year anniversary of the grant date, respectively. The remaining 20% of the total stock options shall vest and become exercisable on the third year anniversary of the grant date. For non-managerial employees, no more than 30% of the total stock options shall vest and become exercisable in the first year anniversary of the grant date. An additional 50% of the total stock options shall vest and become exercisable in the second year anniversary of the grant date. The remaining 20% of the total stock options shall vest and become exercisable on the third year anniversary of the grant date. Each stock option shall become vested and exercisable over a period of no longer than five years from the grant date.

On November 13, 2007, the Company granted stock options with an aggregate amount of 3,000,000 shares of the Stock to twenty (20) managerial and non-managerial employees under the 2007 Plan. The fair value of all options granted is determined approximately as $2,383,430, using the Black-Scholes option pricing model.

On November 14, 2007, the Company entered into an Assets Transfer and Share Issuance Agreement (the "Agreement A") with Mr. Zheng Hanqiao ("Mr. Zheng"), the President and major shareholder of the Company and TCH. Under the Agreement A, Mr. Zheng sold and transferred two TRT systems (the "Assets") valued at $9,677,420 (equivalent to RMB 72,000,000) to the Company in exchange for 7,867,821 shares of common stock of the Company at a 23-days weighted average market price of $1.23 per share. Under the same Agreement A, the Company subsequently sold and transferred to TCH the aforementioned Assets for a total price of $9,677,420 (equivalent to RMB 72,000,000). Currently, the management of TCH has no intention to engage the Assets to any new direct financing projects.

Also on November 14, 2007, the Company entered into a Share Purchase Agreement (the "Agreement B") with Mr. Zheng for a cash investment of $4,032,258 in exchange for 3,278,259 shares of common stock of the Company issued at a 23-days weighted average market price of $1.23 per share. As a result of the Agreement A and the Agreement B, Mr. Zheng acquired a total of 11,146,080 shares of common stock of the Company at a 23-days weighted average market price of $1.23 per share and these shares were fully issued on November 14, 2007. As of 19 November 2007, Mr. Zheng owned approximately 68% of the issued and outstanding shares of the Company's common stock.

On November 16, 2007, the Company entered into a Stock and Notes Purchase Agreement with two investors (the "Investors") pursuant to which the Company agreed to sell and issue, and the Investors agreed to purchase, (i) $5,000,000 principal amount of 10% Senior Secured Convertible Promissory Note (the "First Note"), plus accrued interest thereon, expiring on November 16, 2009; (ii) 4,066,706 shares of newly issued common stock, $0.001 par value, of the Company at an offering price of $1.23 (the "Purchased Shares"); and (iii) $15,000,000 principal amount of 5% Senior Secured Convertible Promissory Note (the "Second Note").

Both the First Note and the Second Note were secured by a perfected first priority lien on 50% of all of the equity interests of the pledgor under the Share Pledge Agreement. Under the Share Pledge Agreement dated as of November 16, 2007, its principal shareholder of the Company, Mr. Hanqiao Zheng agreed to pledge 50% of his shareholding in an aggregate of 19,306,943 shares of common stock (equivalent to 9,653,471 of pledged shares) as collateral to the Investors.

The Company paid a placement fee up to a maximum of $400,000. Proceeds of the financing will be used to fund the capital investments required under its Business Plan and for its other working capital needs.

The Company has agreed to file a registration statement with the Securities and Exchange Commission in order to register the resale of the shares issuable upon conversion of the First Note and the Second Note and the Purchased Shares under the Registration Rights Agreement dated as of November 16, 2007.

On April 29, 2008, The Company entered into an Amendment to the Stock and Notes Purchase Agreement with the investors amending certain terms of the Stock and Notes Purchase Agreement that was dated on November 16, 2007. Under the terms of the Amendment, (i) the Company issued and the Investor subscribed for a total of 4,066,706 shares of common stock of the Company, at the price of $1.23 per share for an aggregate purchase price of $5,002,048, as originally contemplated under the Agreement; (ii) the Investors converted the principal amount under the currently outstanding 10% Secured Convertible Promissory Note in the principal amount of $5,000,000 (the "First Note") (and waived any accrued interest thereon) into 4,065,040 shares of common stock of the Company at the conversion price per share of $1.23, pursuant to the terms and conditions of the First Note issued under the Agreement; unamortized discount on the first note will be expensed in the second quarter as a result of the conversion of the note; (iii) the Company issued and sold to the Investors a new 5% Secured Convertible Promissory Note in the principal amount of $5,000,000 to the Investors (the "Second Note"); and (iv) the Company granted to the Investors an option to purchase a 5% Secured Convertible Promissory Note in the principal amount of $10,000,000, exercisable by the Investors at any time within nine (9) months following the date of the closing of the transactions contemplated by the Amendment (the "Option Note") (the foregoing transactions, together with the sale and purchase of the First Note, are hereinafter referred to as the "Offering").

The Agreement had contemplated two subsequent transactions after issuance of the First Note in November 2007, which transactions were restructured by the Amendment. The two subsequent transactions that were to be effected by the Company and the Investors, were (i) the issuance by the Company and subscription by the Investors of a total of 4,066,706 shares of common stock of Company, at the price of $1.23 per share for an aggregate purchase price of approximately $5,000,000, and (ii) the issuance and sale by the Company to the Investors of a 5% Secured Convertible Promissory Note in the principal amount of $15,000,000.

The Second Note bears interest at 5% per annum and matures on April 29, 2011. The principal face amount of the Second Note, together with any interest thereon, convert, at the option of the holders at any time on or after March 30, 2010 (or such earlier date if the audited consolidated financial statements of the Company for the fiscal year ending December 31, 2009 are available prior to March 30, 2010) and prior to maturity, into shares of the Company's common stock at an initial conversion price that is tied to the after-tax net profits of the Company for the fiscal year ending December 31, 2009, as described in the Second Note. The Second Note is subject to mandatory conversion upon the listing of the Company's common stock on the National Association of Securities Dealers Automated Quotations (NASDAQ) main-board, the New York Stock Exchange or the American Stock Exchange. As more fully described in the Second Note, the obligations of the Company under the Second Note shall rank senior to all other debt of the Company.

As collateral for the First Note, Hanqiao Zheng, the President and a major shareholder of the Company, pledged 9,653,471 of the shares of the Company's common stock held by him to secure the First Note (the "Share Pledge Agreement"). The Second Note and the Option Note are both secured by a security interest granted to the Investors pursuant to the Share Pledge Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report contains certain forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein.

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this document. We do not undertake to publicly update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Overview of Business Background

On May 8, 1980, China Recycling Energy Corporation (the "Company") (formerly known as China Digital Wireless, Inc.) was incorporated under the laws of the State of Colorado. On September 6, 2001, the Company re-domiciled its state of incorporation from Colorado to Nevada.

On June 23, 2004, the Company entered into a stock exchange agreement with Sifang Holdings Co. Ltd. ("Sifang Holdings") and certain shareholders. Pursuant to the stock exchange agreement, the Company issued 13,782,636 shares of its common stock in exchange for a 100% equity interest in Sifang Holdings, making Sifang Holdings a wholly owned subsidiary of the Company. Sifang Holdings was established under the laws of the Cayman Islands on February 9, 2004 for the purpose of holding a 100% equity interest in Shanghai TCH Data Technology Co., Ltd. ("TCH"). TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004.

From May 2004 to December 2006, the Company through TCH engaged in the business of mobile phone distribution, advertising services and other provisions of pager and mobile phone value-added information services under the Company's previous name "China Digital Wireless, Inc."

Since January 2007, the Company has gradually phased out and substantially scale down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first quarter of 2007, the Company did not engage in any substantial transaction and activity in connection to these businesses. On May 10, 2007, the Company completely ceased and discontinued these businesses. These businesses are reflected in continuing operations for all periods presented as the criteria for discontinued operations prescribed by Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

On February 1, 2007, the Company's subsidiary, TCH, entered into two TRT Projects Joint-Operation Agreement ("Joint-Operation Agreement") with Xi'an Yingfeng Science and Technology Co., Ltd. ("Yingfeng"). Yingfeng is a Chinese company that is located in Xi'an, Shaanxi Province, China, and is engaging in the business of designing, selling, installing, and operating TRT systems and other energy renewable products.

Under the Joint-Operation Agreement, TCH and Yingfeng will jointly pursue a top gas recovery turbine project ("Project") which is to design, construct, install and operate a TRT system in Xingtai Iron and Steel Company, Ltd. ("Xingtai"). This project was originally initiated by a Contract to Design and Construct TRT System ("Project Contract") entered by Yingfeng and Xingtai on September 26, 2006. TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, TCH becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests. TCH also entered sales-type leasing with Xingtai. Under the sales-type leasing, TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices to complete a TCH system and leases the TRT system to Xingtai with monthly rental payment of approximately $117,000 (equivalent to RMB 900,000) for a lease term of five years. At the end of the lease term, TCH will transfer all the rights and titles of the TRT Project to Xingtai without cost.

Under another Joint-Operation Agreement, TCH and Yingfeng jointly operated a top gas recovery turbine project ("TRT Project") which designed, constructed, installed and operated a TRT system and leased it to Zhangzhi Iron and Steel Holdings Ltd. ("Zhangzhi"). TCH provides various forms of investments and properties into the TRT Project including cash, hardware, software, equipments, major components and devices. The construction of the TRT Project was completed and put into operation in August 2007. In October 2007, the Company terminated the joint operation agreement with Yingfeng. TCH became entitled to the rights, titles, benefits and interests in the TRT Project and receive a monthly rental payment of approximately $147,000 (equivalent to RMB 1,100,000) from Zhangzhi for a lease term of thirteen years. At the end of the lease term, TCH will transfer the rights and titles of the TRT Project to Zhangzhi without cost.

On March 8, 2007, the name of the Company was changed to "China Recycling Energy Corporation" and engages in energy recycling business, providing energy saving and recycling products and services. Consequently, the businesses of mobile phone distribution and provision of pager and mobile phone value-added information services were discontinued.

Since May 10, 2007, the Company changed its main business operations to energy saving and recycling systems and services. The new business operations include developing and constructing recovered energy power systems such as TRT (Blast-Furnace Top Pressure Recovery Turbine Unit), CHPG (Power generation by recovering cement residual heat without additional fuel), GTPG(Gas turbine power generation) and CGGE(Comprehensive utilization of coal gangue generating electricity); selling the electricity generated by the recovered energy power systems to steel plants and other customers; constructing power plants on a turnkey - EPC (Engineering, Procurement and Construction) basis for developers, industrial users and public facilities; developing flexible, custom-tailored ECO-Energy solutions that enable customers to quickly and easily improve energy efficiency and educe fossil fuel consumption and Green House Gases emission. In connection with the change of business operations, the Company has established a technical team that is composed of recognized experts and technicians specialized in the development and construction of energy saving and recycling systems.

Discussion and Analysis of Operating Results

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Discontinued Operation

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution, advertising services and provision of pager and mobile phone value-added information services. On May 10, 2007, the Company completely discontinued these businesses. Accordingly, the results of the discontinued operations have been segregated from continuing operations in the consolidated statements of operations for the nine-months periods ended September 30, 2007 and 2006.

Revenues

Revenues for the nine months ended September 30, 2007 were $9,075,999, which represented the sale of the TRT system to Xingtai and Changzhi under the sales-type leases.

Cost of Revenues

Total cost of revenue for the nine months ended September 30, 2007 consisted primarily of the cost of the TRT system that was sold to Xingtai and Changzhi through sales-type leases. Total cost of revenue for the nine months ended September 30, 2007 was $6,981,537.

Gross profit

Our gross profit for the nine months ended September 30, 2007 was $2,094,462, mainly from the operation in the business of selling of energy saving and recycling systems.

Interest income in sales-type leases

Interest income in sales-type leases was the interest from the sales-type leases of TRT system to Xingtai and Changzhi. Total lease payment for Xingtai is $6,569,430 with lease term of 5 years, of which, $1,696,437 is total interest income from this sales-type lease. Total lease payment for Changzhi is $21,164,776, of which, $16,833,977 is total interest income from this sales-type lease. During the nine months ended September 30, 2007, we earned $473,075 for the interest income in sales-type leases.

General and administrative expenses

General and administrative expenses for the nine months ended September 30, 2007 increased by $169,579 to $358,726 compared to $189,147 for the same period of the prior year, representing a 90% increase. The increase was mainly due to the write-off of bad debt from receivable from 'Sifang information' of $73,000, and increased in consulting expenses during the nine months ended September 30, 2007.

Income from operations of discontinued components

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. On May 10, 2007, the Company completely discontinued these businesses. Accordingly, the results of the discontinued operations have been segregated from continuing operations in the statements of operations and cash flows for the nine-month periods ended September 30, 2007 and 2006. The discontinued operations incurred an income of $28,457 and $85,782 for the nine month periods ended September 30, 2007 and 2006, respectively.

Liquidity and Capital Resources

During the nine months ended September 30, 2007, our net cash provided by operating activity was $ 8,283,878 compared to net cash of 123,529 used during the same period in 2006, which represented a net increase in cash of $8,407,407. This increase was mainly due to increase in net income, accounts payable and other payables and decrease in advance to suppliers.

Net cash used in investing activities was $8,586,703 during the nine months ended September 30, 2007 compared to net cash flows used in investing activities of $2,266,042 during the same period of the prior year, an increase of $6,320,661. This increase was mainly due to increase in receivables from sales-type leases to Xingtai and Changzhi.

Net cash provided by financing activities for the nine months ended September 30, 2007 was $48,015and $0 for the same period of 2006. This increase in cash attributed to advance from shareholder during the nine months ended September 30, 2007.

We believe that current cash balance and cash flows from operations, if any, will be sufficient to meet present growth strategies and related working capital. In regards to the capital expenditures, we have sufficient funds to expand our operations. We plan to utilize a combination of internally generated funds from operations with potential debt and/or equity financings to fund our longer-term growth over a period of two to five years. The availability of future financings will depend on market conditions. There is no assurance that the future funding will be available.

The forecast of the period of time through which our financial resources will be adequate to support operations is a forward-looking statement that involves risks and uncertainties.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have not formed any special purpose entities. We have not guaranteed any debt or commitment of other entities or entered into any options or nonfinancial assets.

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value, and expands disclosures about fair value measurements required under the accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for fiscal year, including financial statements for an interim period within the fiscal year. The Company is currently evaluating the impact, if any, that SFAS No. 157 will have on its financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132R

In September 2006, the FASB, issued SFAS, No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132R," which requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. We adopted the provisions of SFAS No. 158 for the year end 2006, and the effect of recognizing the funded status in accumulated other comprehensive income was not significant. The new measurement date requirement applies for fiscal years ending after December 15, 2008.

Considering the Effects of Prior Year Misstatements in Current Year Financial Statements

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company adopted SAB 108 in the fourth quarter of 2006 with no impact on its financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February of 2007 the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is analyzing the potential accounting treatment.

ITEM 3. CONTROLS AND PROCEDURES

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected in a timely manner. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on that evaluation, our management concluded that as of September 30, 2007, our internal control over financial reporting was not effective because of the material weaknesses described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the Company's internal control over financial reporting as of September 30, 2007, management determined that our internal control over financial reporting was subject to the following material weaknesses:

Inadequate staffing and supervision within the accounting operations of our company - The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews.

Lack of expertise in U.S accounting principles among the personnel in our Chinese headquarters - Our books are maintained at our executive offices in the City of Xi'an, then translated into English and adjusted to reflect U.S accounting principles by outside financial consultant. The lack of personnel in our Xi'an office who are trained in U.S. accounting principles is a weakness because it could lead to improper classification of items and other failures to make the entries and adjustments necessary to comply with U.S. GAAP.

Lack of Internal Audit System - The company lacked of internal audit department, which was ineffective in preventing and detecting control lapses and errors in the accounting of certain key areas like revenue recognition, purchase approvals, inter-company transactions, cash receipt and cash disbursement authorizations, inventory safeguard and proper accumulation for cost of products, in accordance with the appropriate costing method used by the company.

The Company's management has identified the steps necessary to address the material weaknesses existing as of September 30, 2007 described above, as follows:

1. Hiring additional accounting and operations personnel and engaging outside contractors with technical accounting expertise, as needed, and reorganizing the accounting and finance department to ensure that accounting personnel with adequate experience, skills and knowledge relating to complex, non-routine transactions are directly involved in the review and accounting evaluation of our complex, non-routine transactions;

2. Involving both internal accounting and operations personnel and outside contractors with technical accounting expertise, as needed, early in the evaluation of a complex, non-routine transaction to obtain additional guidance as to the application of generally accepted accounting principles to such a proposed transaction;

3. Documenting to standards established by senior accounting personnel and the principal accounting officer the review, analysis and related conclusions with respect to complex, non-routine transactions;

4. Requiring senior accounting personnel and the principal accounting officer to review complex, non-routine transactions to evaluate and approve the accounting treatment for such transactions;

5. Interviewing prospective new Directors for our Board including a member who is appropriately credentialed as a financial expert with a goal to establish both an Audit and Compensation committee as well as sufficient independent Directors; and

6. Evaluating the internal audit function in relation to the Company's financial resources and requirements.

This Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this Report.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any material pending legal proceedings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 13, 2007, the Company approved the 2007 Non-statutory Stock Option Plan (the "2007 Plan") under the Form S-8 Registration Statement. Pursuant to the 2007 Plan, the Company may issue stock, or grant options at

$1.23 per share to acquire the Company's common stock at par value $0.001 (the "Stock"), with an aggregate amount of 3,000,000 shares of the Stock, from time to time to employees and directors of the Company or other individuals, including consultants or advisors, all on the terms and conditions set forth in the 2007 Plan. The vesting terms of options grant under the 2007 Plan are subject to the Non-Statutory Stock Option Agreements for managerial and non-managerial employees. For managerial employees, no more than 15% of the total stock options shall vest and become exercisable on the six month anniversary of the grant date. An additional 15% and 50% of the total stock options shall vest and become exercisable on the first and second year anniversary of the grant date, respectively. The remaining 20% of the total stock options shall vest and become exercisable on the third year anniversary of the grant date. For non-managerial employees, no more than 30% of the total stock options shall vest and become exercisable in the first year anniversary of the grant date. An additional 50% of the total stock options shall vest and become exercisable in the second year anniversary of the grant date. The remaining 20% of the total stock options shall vest and become exercisable on the third year anniversary of the grant date. Each stock option shall become vested and exercisable over a period of no longer than five years from the grant date.

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The Company has agreed to file a registration statement with the Securities and Exchange Commission in order to register the resale of the shares issuable upon conversion of the First Note and the Second Note and the Purchased Shares under the Registration Rights Agreement dated as of November 16, 2007.

On April 29, 2008, The Company entered into an Amendment to the Stock and Notes Purchase Agreement with the investors amending certain terms of the Stock and Notes Purchase Agreement that was dated on November 16, 2007.

Under the terms of the Amendment, (i) the Company issued and the Investor subscribed for a total of 4,066,706 shares of common stock of the Company, at the price of $1.23 per share for an aggregate purchase price of $5,002,048, as originally contemplated under the Agreement; (ii) the Investors converted the principal amount under the currently outstanding 10% Secured Convertible Promissory Note in the principal amount of $5,000,000 (the "First Note") (and waived any accrued interest thereon) into 4,065,040 shares of common stock of the Company at the conversion price per share of $1.23, pursuant to the terms and conditions of the First Note issued under the Agreement; unamortized discount on the first note will be expensed in the second quarter as a result of the conversion of the note; (iii) the Company issued and sold to the Investors a new 5% Secured Convertible Promissory Note in the principal amount of $5,000,000 to the Investors (the "Second Note"); and (iv) the Company granted to the Investors an option to purchase a 5% Secured Convertible Promissory Note in the principal amount of $10,000,000, exercisable by the Investors at any time within nine (9) months following the date of the closing of the transactions contemplated by the Amendment (the "Option Note") (the foregoing transactions, together with the sale and purchase of the First Note, are hereinafter referred to as the "Offering").

The Agreement had contemplated two subsequent transactions after issuance of the First Note in November 2007, which transactions were restructured by the Amendment. The two subsequent transactions that were to be effected by the Company and the Investors, were (i) the issuance by the Company and subscription by the Investors of a total of 4,066,706 shares of common stock of Company, at the price of $1.23 per share for an aggregate purchase price of approximately $5,000,000, and (ii) the issuance and sale by the Company to the Investors of a 5% Secured Convertible Promissory Note in the principal amount of $15,000,000.

The Second Note bears interest at 5% per annum and matures on April 29, 2011. The principal face amount of the Second Note, together with any interest thereon, convert, at the option of the holders at any time on or after March 30, 2010 (or such earlier date if the audited consolidated financial statements of the Company for the fiscal year ending December 31, 2009 are available prior to March 30, 2010) and prior to maturity, into shares of the Company's common stock at an initial conversion price that is tied to the after-tax net profits of the Company for the fiscal year ending December 31, 2009, as described in the Second Note. The Second Note is subject to mandatory conversion upon the listing of the Company's common stock on the National Association of Securities Dealers Automated Quotations (NASDAQ) main-board, the New York Stock Exchange or the American Stock Exchange. As more fully described in the Second Note, the obligations of the Company under the Second Note shall rank senior to all other debt of the Company.

As collateral for the First Note, Hanqiao Zheng, the President and a major shareholder of the Company, pledged 9,653,471 of the shares of the Company's common stock held by him to secure the First Note (the "Share Pledge Agreement"). The Second Note and the Option Note are both secured by a security interest granted to the Investors pursuant to the Share Pledge Agreement.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

31.1 Chief Executive Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Chief Financial Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 President and Chairman Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Chief Executive Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Chief Financial Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.3 President and Chairman Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Recycling Energy Corporation (Registrant)

Date: May 16, 2008

/s/ Hanqiao Zheng
Hanqiao Zheng
President and Chairman

Date: May 16, 2008

/s/ Guangyu Wu
Guangyu Wu
Chief Executive Officer

Date: May 16, 2008

/s/ Mingda Rong
Mingda Rong
Chief Financial Officer