

CHINA RECYCLING ENERGY CORP  
Form 10-Q  
May 15, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 333-120431

**China Recycling Energy Corporation**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**90-0093373**  
(I.R.S. Employer  
Identification No.)

**429 Guangdong Road**  
**Shanghai, China 200001**  
**People's Republic of China**  
(Address of principal executive offices,  
including zip code)

**Registrant's telephone number, including area code: (011) 86-21-6336-8686**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant’s Common Stock, as of March 31, 2008, was 25,015,089.

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**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF MARCH 31, 2008**

<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$	797,601
Investment in sales type leases, net		1,093,493
Interest receivable		239,165
Advances to suppliers		2,566,320
Prepaid expenses		227,086
Inventory		10,257,871
Total current assets		15,181,536
INVESTMENT IN SALES TYPE LEASES, NET		7,995,916
PROPERTY AND EQUIPMENT, net		82,459
CONSTRUCTION IN PROGRESS		997,293
TOTAL ASSETS	\$	<b>24,257,204</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$	2,317,275
Tax payable		426,938
Accrued liabilities and other payables		2,669,459
Advance from shareholder		250,000
Interest payable		187,672
Convertible notes, net of discount due to beneficial conversion feature		938,356
Total current liabilities		6,789,700
<b>CONTINGENCIES AND COMMITMENTS</b>		
MINORITY INTEREST		15,699
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 25,015,089 shares issued and outstanding		25,015
Additional paid in capital		19,396,062
Statutory reserve		855,677
Accumulated other comprehensive income		1,792,986

Accumulated deficit		(4,617,935)
Total stockholders' equity		17,451,805
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>24,257,204</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**

	<b>FOR THE THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2008</b>	<b>2007</b>
		<b>(RESTATED)</b>
Net sales	\$ -	\$ 4,781,163
Cost of sales	-	(3,677,818)
Gross profit	-	1,103,345
Interest income on sales-type leases	564,952	50,236
Total operating income	564,952	1,153,581
Operating expenses		
General and administrative expenses	(648,610)	(257,042)
Total operating expenses	(648,610)	(257,042)
Income (loss) from operations	(83,658)	896,539
Non-operating income (expenses)		
Other income	1,581	-
Interest (expense) income	(743,278)	45
Financial expense	(422)	(95)
Exchange loss	(11,189)	-
Total non-operating expenses	(753,308)	(50)
Income (loss) before income tax	(836,966)	896,489
Income tax expense	(50,947)	(160,157)
Net income (loss) from continuing operations	(887,913)	736,332
Income from operations of discontinued component	-	23,105
Minority interest	(27)	-
Net income (loss)	(887,940)	759,437
Other comprehensive item		
Foreign currency translation	74,725	(343,992)

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Comprehensive Income (loss)	\$	(813,215)	\$	415,445
Basic weighted average shares outstanding		25,015,089		17,147,268
Diluted weighted average shares outstanding		30,508,410		17,147,268
Basic net earnings (loss) per share (1)	\$	(0.04)	\$	0.04
Diluted net earnings (loss) per share (1)	\$	(0.04)	\$	0.04

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(1) Basic and diluted loss per share are the same due to anti-dilutive securities.

The accompanying notes are an integral part of these consolidated financial statements.

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**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	FOR THE THREE MONTHS ENDED	
	MARCH 31,	
	2008	2007
		(RESTATED)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (887,940)	\$ 759,437
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	17	-
Amortization of discount related to conversion feature of convertible note	623,288	-
Stock option compensation expense	325,155	-
Minority interest	27	-
(Increase) decrease in current assets:		
Advances to suppliers	(192,463)	471,646
Interest receivable	(94,903)	-
Other receivable	1,622	-
Inventory	-	(1,301,848)
Increase (decrease) in current liabilities:		
Accounts payable	(69,737)	2,331,984
Unearned revenue	-	263,786
Advance from customers	-	(142,743)
Tax payable	(125,995)	184,952
Interest payable	124,658	-
Accrued liabilities and other payables	17,227	1,794,773
<b>Net cash (used in) provided by operating activities</b>	<b>(279,044)</b>	<b>4,361,987</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in sales-type leases	282,188	(4,618,779)
Acquisition of property & equipment	(80,823)	-
Construction in progress	(977,299)	(1,578)
<b>Net cash used in investing activities</b>	<b>(775,934)</b>	<b>(4,620,357)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment to management	(72,826)	-
Advance from shareholder	250,000	15,302
<b>Net cash provided by financing activities</b>	<b>177,174</b>	<b>15,302</b>
<b>EFFECT OF EXCHANGE RATE CHANGE ON CASH &amp; CASH EQUIVALENTS</b>	<b>41,065</b>	<b>2,007</b>



NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(877,804)	(243,068)
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	1,634,340	252,125
CASH & CASH EQUIVALENTS, END OF PERIOD	\$ 797,601	\$ 11,064
Supplemental Cash flow data:		
Income tax paid	\$ 127,336	\$ 35,281
Interest paid	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

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CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2008 (UNAUDITED)

**1. ORGANIZATION AND DESCRIPTION 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. On September 6, 2001, the Company re-domiciled its state of incorporation from Colorado to Nevada. The Company, through its subsidiary, Shanghai TCH Data Technology Co., Ltd. (“TCH”), sells and leases energy saving equipment. 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”.

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 transactions or activity in connection with these businesses. On May 10, 2007, the Company ceased and discontinued the businesses related to mobile phones and pagers. 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” (“SFAS 144”).

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”). TRT is an electricity generating system that utilizes the exhaust pressure and heat produced in the blast furnace of a steel mill to generate electricity. Yingfeng is a joint stock company registered in Xi’an, Shaanxi Province, the People’s Republic of China (“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 both of the Joint-Operation Agreements with Yingfeng and became fully entitled to the rights, titles, benefits and interests in the TRT Projects.

Under one of the Joint-Operation Agreements, 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”). The total investment costs contributed by TCH were approximately \$1,426,000 (equivalent to Renminbi (“RMB”) 10,690,000). TCH provides various forms of investments and properties into the TRT Project including cash, hardware, software, equipment, 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 Zhangzhi 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.

Under another Joint-Operation Agreement, TCH and Yingfeng jointly operated a TRT Project which is to design, construct, install and operate a TRT system and lease the TRT system to Xingtai Iron and Steel Company Ltd. (“Xingtai”). TCH provides various forms of investments and properties into this TRT Project including cash, hardware, software, equipment, major components and devices. The total estimated investment cost of this TRT Project were approximately \$3,900,000 (equivalent to RMB 30,000,000). The construction of the TRT Project at Xingtai 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 Xingtai TRT Project and receive a monthly rental payment of approximately \$117,000 (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.

On September 21, 2007, the Company's subsidiary, TCH changed its name to "Shanghai TCH Energy Technology Co., Ltd."

Except as indicated, amounts reflected in the consolidated financial statements or the notes thereto relate to our continuing operations.

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The unaudited financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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 three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

**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 SEC for interim period financial statements.

**Basis of consolidation**

The consolidated financial statements include the accounts of CREG and, its subsidiaries, Sifang Holdings, TCH, and TCH’s newly incorporated subsidiaries Xi’an TCH Energy Tech Co., Ltd. (Xi’an TCH) and Xingtai Huaxin Energy Tec