

CHINA RECYCLING ENERGY CORP  
Form 10-12B  
February 05, 2010

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

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES  
PURSUANT TO SECTION 12(b) OR 12(g) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-12536

China Recycling Energy Corporation

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(Exact name of registrant as specified in its charter)

Nevada

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(State or other jurisdiction of incorporation or organization)

90-0093373

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(I.R.S. Employer Identification No.)

12/F, Tower A  
Chang An International Building  
No. 88 Nan Guan Zheng Jie  
Xi An City, Shan Xi Province  
China 710068

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(Address of principal executive offices)

710068

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(Zip Code)

Registrant's telephone number, including area code: (011) (86-29) 8765-1097

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Common stock, par value \$0.001 per share	NASDAQ Global Market

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Securities registered pursuant to Section 12(g) of the Act:

NONE

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 “small reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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CHINA RECYCLING ENERGY CORPORATION

FORM 10

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When we use the terms "we," "us," "our" and "the Company," we mean China Recycling Energy Corporation., a Nevada corporation, and its wholly-owned subsidiary, Sifang Holdings Co., Ltd., and Sifang Holdings Co., Ltd.'s wholly-owned subsidiary, Shanghai TCH Energy Technology Co., Ltd. and Shanghai TCH Energy Technology Co., Ltd.'s wholly-owned subsidiary, Xi'an TCH Energy Technology Co., Ltd. Prior to March 8, 2007, China Recycling Energy Corporation's name was China Digital Wireless, Inc.

## ITEM 1. BUSINESS

### General

We currently engage in the recycling energy business, providing energy savings and recycling products and services.

### Overview

### Business History.

We originally began operations as a Colorado corporation known as Boulder Brewing Company, or Boulder Brewing. We were incorporated in Colorado on May 8, 1980 and operated as a microbrewery of various beers. Boulder Brewing was unable to become profitable within any segment of its core business, became illiquid, and was forced to divest itself of all of its assets. Boulder Brewing became dormant without any operations or assets in the second quarter of 1990.

In September 2001, Boulder Brewing changed its state of incorporation from Colorado to Nevada and changed its name to Boulder Acquisitions, Inc., or Boulder Acquisitions. From the date of reincorporation until June 23, 2004, Boulder Acquisitions had no material operations or assets.

On June 23, 2004, we completed a stock exchange transaction with the shareholders of Sifang Holdings Co., Ltd. ("Sifang Holdings"). The exchange was consummated under Nevada and Cayman Islands law pursuant to the terms of a Securities Exchange Agreement dated as of June 23, 2004 by and among Boulder Acquisitions, Sifang Holdings and the shareholders of Sifang Holdings. Pursuant to the Securities Exchange Agreement, we issued 13,782,636 shares of our common stock to the shareholders of Sifang Holdings, representing approximately 89.7% of our post-exchange issued and outstanding common stock, in exchange for 100% of the outstanding capital stock of Sifang Holdings. We presently carry on the business of Sifang Holdings' wholly-owned subsidiary, Shanghai TCH Energy Technology Co., Ltd. or Shanghai TCH, a corporation organized under the laws of the People's Republic of China ("PRC" or "China").

Effective August 6, 2004, we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc.

From August 2004 to December 2006, we primarily engaged in the business of pager and mobile phone distribution and provided value added information services to the customers in the PRC. We gradually phased out and substantially scaled down most of the business of mobile phone distribution and provision of pager and mobile phone value-added information services, and on May 10, 2007, the Company approved and announced that it completely ceased and discontinued these businesses.

In December 2006, we began to engage in business activities in the energy saving and recycling industry, including purchasing certain equipment, devices, hardware and software for the construction and installation of top gas recovery turbine systems ("TRT") and other renewable energy products. TRT is an electricity generating system that utilizes the exhaust pressure and heat produced in the blast furnace of steel mills to generate electricity. It has commercial value for the steel mills by using waste heat and steam to produce electricity for the operation of the mills.

On March 8, 2007, we changed our name from China Digital Wireless, Inc. to China Recycling Energy Corporation.

On April 8, 2007, our Board of Directors approved and made effective a TRT Project Joint-Operation Agreement (“Joint-Operation Agreement”) which was conditionally entered on February 1, 2007 between Shanghai TCH and Xi’an Yingfeng Science and Technology Co., Ltd. (“Yingfeng”). Yingfeng is a Chinese company that is located in Xi’an, Shaanxi Province, China, which is engaged in the business of designing, selling, installing, and operating TRT systems and other renewable energy products.

Under the Joint-Operation Agreement, Shanghai TCH and Yingfeng jointly pursued a top gas recovery turbine project (“Project”) 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. Due to Yingfeng’s lack of capital in pursuing this Project alone, Yingfeng sought Shanghai TCH’s cooperation. After intensive and substantial inquiry and assessment, Shanghai TCH agreed to pursue this project with Yingfeng as a joint venture. Under the terms of the Joint-Operation Agreement, Shanghai TCH provided various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, Shanghai TCH obtained 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.

On October 31, 2007, Shanghai TCH entered an asset-transfer agreement with Yingfeng to transfer from Yingfeng to Shanghai TCH all electricity-generating related assets owned by Yingfeng. As the result, the contractual relationships between Shanghai TCH and Yingfeng under the TRT Project Joint-Operation Agreement entered on April 8, 2007 were terminated.

In November 2007, TCH signed a cooperative agreement with Shengwei Group for a Cement Waste Heat Power Generator Project (“CHPG”). TCH will build two sets of 12MW pure low temperature cement waste heat power generator systems for Shengwai’s two 2,500-tons-per-day cement manufacturing lines in Jin Yang and a 5,000-tons-per-day cement manufacturing line in Tong Chuan. Total investment will be approximately \$12,593,000 (RMB 93,000,000). At the end of 2008, construction of the CHPG in Tong Chuan was completed at a total cost of approximately \$6,191,000 (RMB 43,000,000) and put into operation. Under the original agreement, the ownership of the power generator system would belong to Tong Chuan from the date the system is put into service. TCH is responsible for the daily maintenance and repair of the system, and charges Tong Chuan a monthly electricity fee based on the actual power generated by the system at 0.4116 RMB per KWH for an operating period of five years with the assurance from Tong Chuan of a properly functioning 5,000-tons-per-day cement manufacturing line and not less than 7,440 heat hours per year for the electricity generator system. Shengwei Group collateralized the cement manufacturing line in Tong Chuan to guarantee its obligations to provide the minimum electricity income from the power generator system under the agreement during the operating period. At the end of the five year operating period, TCH will have no further obligations under the cooperative agreement. On May 20, 2009, TCH entered into a supplementary agreement with Shengwei Group to amend the timing for title transfer until the end of the leasing term.

On June 29, 2009, construction of the CHPG in Jin Yang was completed at a total cost of approximately \$7,318,000 (RMB 50,000,000) and put into operation. TCH will charge Jin Yang a technical service fee of \$336,600 (RMB 2,300,000) monthly for sixty months. Jin Yang has the right to purchase the ownership of the CHPG systems for \$29,000 (RMB 200,000) at the end of lease term. Jin Yang is required to provide assurance of properly functioning 5,000-tons-per-day cement manufacturing lines and not less than 7,440 heat hours per year for the CHPG. Shengwei Group collateralized the cement manufacturing lines in Jin Yang to guarantee its obligations to provide the minimum electricity income from the power generator system under the agreement during the operating period. Effective July 1, 2009, TCH outsourced the operation and maintenance of the CHPG systems in Tong Chuan and JinYang to a third party for total of \$732,000 (RMB 5,000,000) per year.

On April 14, 2009, the Company incorporated a joint venture (“JV”) with Erdos Metallurgy Co., Ltd. (“Erdos”) for recycling waste heat from Erdos 's metal refining plants to generate power and steam, which will then be sold back to Erdos. The name of the JV is Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd (“Erdos TCH”) with a term of 20 years, and the registered capital of the JV is \$2,635,000 (RMB 18,000,000). On September 30, 2009, Xi'an TCH injected additional capital of \$4.03 million (RMB 27,500,000). Total investment for the project is estimated at approximately \$74 million (RMB 500 million) with an initial investment of \$8,773,000 (RMB 60,000,000). Erdos contributed 10% of the total investment of the project, and Xi'an TCH contributed 90% of the total investment. Xi'an TCH and Erdos will receive 80% and 20% of the profit allocation from the JV, respectively, until Xi'an TCH has received a complete return on its investment. Xi'an TCH and Erdos will then receive 60% and 40% of the profit allocation from the JV, respectively. When the term of the JV expires, Xi'an TCH will transfer its equity in the JV to Erdos at no additional cost. By the end of 2009, the first power station unit was completed.

During 2008, the Company also leased two energy recycling power generation equipment systems under one-year, non-cancellable leases with the rents paid in full, which the Company was able to sublease for higher rental income under one-year, non-cancellable leases. The Company did not renew its lease when it expired in April 2009, and as a result, the sublessee was unable to renew its lease with the Company.

On September 30, 2009, Xi'an TCH delivered to Shenmu County Juijiang Trading Co., Ltd. ("Shenmu") a set of 18 megawatt capacity Waste Gas Power Generation ("WGPG") power generating systems pursuant to a Cooperative Contract on Coke-oven Gas Power Generation Project (including its Supplementary Agreement) and a Gas Supply Contract for Coke-oven Gas Power Generation Project. The contracts are for 10 years and provide that Xi'an TCH will recycle coke furnace gas from the coke-oven plant of Shenmu to generate power, which will then be supplied back to Shenmu. Shenmu agrees to supply Xi'an TCH the coke-oven gas free of charge. Under the contracts, Shenmu will pay to the Company "energy-saving service fees" of approximately \$473,000 per month for the life of the contracts, as well as such additional amount as may result from the supply of power to Shenmu in excess of 10.80 million kilowatt hours per month at the rate of 0.30 yuan (approximately \$0.04) per kilowatt hour. The Company is responsible for operating the systems and will do so through an unrelated third party at a cost of approximately \$438,000 per year. Shenmu guarantees that monthly gas supply will not be lower than 21.6 million standard cubic meters, delivered monthly. If gas supply is lower than that, Shenmu agrees to pay Xi'an TCH an energy-saving service fee, of up to 10.80 million kilowatt-hours a month, the amount of which would result in "energy-saving service fees" of approximately \$473,000 per month. Xi'an TCH maintains the ownership of the project throughout the term of the contracts, including the already completed investment, design, equipment, construction and installation as well as the operation and maintenance of the project. Xi'an TCH agrees to pay to Shenmu 50,000 yuan (about \$7,300) a year to use the land for the power station. At the end of the 10-year term, ownership of the systems transfers to Shenmu at no additional charge. Shenmu agrees to provide a lien on its production line to guarantee its performance under the contracts. Three individuals provide an unlimited joint liability guarantee to Xi'an TCH for Shenmu's performance under the Contracts and the Yulin Huiyuan Group provides a guarantee to Xi'an TCH for Shenmu's performance under the contracts.

Starting in November 2008, the Chinese government announced a series of economic stimulus plans aimed at bolstering its weakening economy – a sweeping move to help fight the effects of the global slowdown. In the announcements, China estimated it would spend \$586 billion over the next two years – roughly seven percent of its gross domestic product each year – to construct new railways, subways and airports and to rebuild communities devastated by an earthquake in the southwest China in May 2008. The economic stimulus package is the largest effort ever undertaken by the Chinese government. The government said that the stimulus would cover ten areas, including low-income housing, electricity, water, rural infrastructure and projects aiming at environmental protection and technological innovation.

Our current business is primarily conducted through our wholly-owned subsidiary, Sifang Holdings and its wholly-owned subsidiaries, Shanghai TCH and Shanghai TCH's wholly-subsiaries, Xi'an TCH Energy Technology Company, Ltd ("Xi'an TCH"), Xingtai Huaxin Energy Tech Co., Ltd. ("Huaxin"), Xi'an TCH's 90% owned subsidiary Erdos TCH, and Sifang Holding's subsidiary, Huahong New Energy Technology Co., Ltd. ("Huahong"). Shanghai TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, with registered capital of \$7.2 million. Xi'an TCH was established as a foreign investment enterprise in Xi'an, Shannxi Province under the laws of the PRC on December 14, 2007. Huaxin was incorporated in Xingtai, PRC in November, 2007. Erdos TCH was incorporated in April 2009. Huahong was registered in 2009.

## Market

### A. Description of the TRT (Blast Furnace Top-Gas Recovery Turbine Unit) Market

Energy is a major strategic issue affecting the development of the Chinese economy. The Chinese government has committed to adjusting the economic structure and changing the mode of economic growth in order to encourage the use of more advanced and more environment-friendly technologies. Also, the Chinese government has been promoting the development of a recycling economy and the circulated use of resources by encouraging enterprises to engage in the energy-recycling industry. Various government issued documents indicate the government's plan to promote the use of energy saving and recycling equipment and systems.

The 2007 Report of China's Iron & Steel Association predicted that 200 TRT systems or plants will be installed in China from 2008 to 2010. The total amount of investment is expected to reach RMB 5 billion (averaging RMB 2.5 million each year), with an electricity-generation up to 11.2 billion KWH per year.

TRT projects are one of our core businesses and we have an excellent team specialized in development, installation, production and operation of TRT systems and equipment. Also, we have rich marketing experience in this field and have become a leader in TRT market.

We invested and built 3 TRT projects in 2007 (one for Shanxi Changzhi Steel Group, and two for Hebei Xingtai Steel Group). In addition, we have one project currently under construction and scheduled to be built up in 2010 for Zhonggang Binhai.

### B. Description of CHPG (Cement Low Temperature Heat Power Generation) Market

Cement waste heat power generation, or CHPG, is power generation by recovering cement residual heat without additional fuel, to be built on NSP (New Suspension Pre-heater Dry Process) cement clinker production lines.

#### 1. State of the market:



The cement industry experienced substantial growth in China during past years according to a February 2009 article of China's Securities News . China's total investment in the cement industry reached RMB 105 billion (\$15 billion) in 2008, a 60% increase from 2007. Of the RMB 105 billion (\$15 billion) investment, 65 percent was spent on building up NSP cement clinker production lines, a 10% increase from 2007. It is estimated that the percentage of NSP production lines of the total will rise to 70% by the end of 2009. There are three main reasons for such strong demand of CHPG systems.

First, during the period of the Chinese government's 10th Five-Year Plan, the output of NSP production lines reached 40% of the total cement output. The 11th Five-Year plan has continued to promote the NSP production line as a primary goal for the cement industry. This government promotion provides a good foundation for CHPG.

Second, with the development of China's national economy, demand on electricity and coal has been increasing, and the price for such materials has been rising. This exerts a negative effect on cement enterprises. As the price of power and coal reached the majority of the production cost and substantially exceeded the cost of raw materials, companies are motivated to utilize CHPG in order to reduce production cost.

Third, at the end of the 10th Five-Year Plan and the start of the 11th Five-Year Plan, the Chinese government called for an energy saving campaign and issued a Medium and Long-Term Plan on Special Energy-Saving which indicated that CHPG should be widely used, and specified that 30 CHPG systems be established annually on cement producing lines with an output of 2000 tons daily. The 11th Five-Year Plan provides policy support for development of CHPG.

2. Market prospects

The rapid development of CHPG creates a good opportunity for the development, marketing and sales of cement residual heat boilers. In 2006, eight Chinese state ministries jointly issued Views on Adjustment of Structure of Cement Industry that pointed out that by the year 2010, the percentage of the NSP production lines equipped with CHPG should reach 40% and the total output of cement will reach between 1.4 billion-1.5 billion tons up from 1.24 billion tons in 2006. According to regulations on Chinese saving-energy industry, in the future, the NSP production will gradually replace shaft kiln cement. The 2007 Report of China's Cement Association estimated that there will be a demand for more than 400 CHPG systems beyond 2010.

We invested and have built two CHPG systems. One (Tongchuan) was completed at the end of 2008 and the other (Jinyang) was completed at the end of June 2009.

C. Description of WPG (Waste Gas Power Generation)

During the process of industrial production, some by-products, such as blast furnace gas, coke furnace gas, oil gas, and others are created with certain high intensive thermal energy. The waste gas can be collected and used as a fuel by gas turbine system to generate power energy.

Gas turbines are a set of hi-tech equipment and devices that is very crucial to the energy development strategy of China. Gas turbine, which uses flammable gas as fuel and combines with recycling power generating technology, has many merits. These include high efficiency power generation, low investment, short construction periods, small land usage, water savings, environment protection and more. The market prospect of the gas turbine industry is largely promising. A Bohai security analysis report in 2008 indicated that "during Tenth Five-year Plan Period, the total volume of Chinese gas power generating was almost 10 million KW and it will reach to 20 million KW by 2010, and 60 million KW by 2020. The total investment amount will be USD 27 billion." The natural gas power plants being or to be built, representing about 6% of the total equipment capability of China, most of which are newly constructed projects, provide huge market potential for gas turbine.

Through years of research, development and experimental applications, this gas-to-energy system has started to be applied into some high energy intensive industrial plants, such as in the course of the iron-smelting in metallurgy plants. Metallurgical enterprises, as the biggest industrial energy user in China, consume 13%-15% of national electricity. Electricity consumed by the iron-smelting industry accounts for 40% of that consumed by metallurgical enterprises. If all top furnaces in the iron-smelting industry are equipped with gas recovery systems, electricity consumption may be decreased by 30-45%. Furthermore, environmental pollution will be efficiently reduced while energy efficiency is improved in those heavy industries.

We invested and built up one WPG facility for a coking plant (Shenmu) during the third quarter of 2009. We are currently working with Erdos Metallurgy to build up a cluster of WPG systems. At the end of 2009, a first power generation unit was completed and another unit is currently under construction..

D. Suppliers

1. Through its business subsidiaries in China, the company believes it maintains good relationships with TRT, CHPG and WGPG equipment suppliers, and these relationships help provide cost-effective equipment purchasing for its intended projects and ensure the timely completion of these projects.

2. The Company has established business relationships with its suppliers, including Hangzhou Boiler Plant, Beijing Zhongdian Electric Machinery, Chengdu Engine Group, Shanghai Electric Group, China Aviation Gas Turbine Co. Ltd and Xuji Electric. Therefore, we believe that we now have strong support in equipment supply and installation, and in research and development of technologies.

E. Main Customers

Our customers are mainly large-size domestic enterprises involving high energy-consuming businesses producing iron and steel, cement, coking, and metallurgy. As stated below, due to the continued expansion of the Chinese markets and administrative support for energy-recycling by the Chinese government, our market to provide TRT, CHPG and WGPG projects continues to expand.

F. Demand for Recycled Energy

The following table is the funds invested, or expected to be invested, in environmental protection industry by the Chinese government (in billion RMB).

	Eighth Five-Year Plan (1991-1995)	Ninth Five-Year Plan (1996-2000)	Tenth Five-Year Plan (2001-2005)	Eleventh Five-Year Plan (2006-2010)
Total Investment Amount (in billion RMB)	131	450	750	1,350 (proj.)
Percentage of PRC's GDP	0.73%	1.3%	1.5%	1.5%

Source: 11th Five-Year Plan of the China National Environmental Protection Plans.

Currently, recycled energy accounts for less than 1% of China's total energy consumption. As a result, due to environmental protection pressure and improvement of infrastructure in western China, recycled energy, as a special and stable energy resource, can be expected to grow in China.

G. Intellectual Property Rights

The company has applied for a service mark "TCH" in China, which will be used in all of our business operations.

H. Research and Development

In 2009, 2008 and 2007, we invested about \$198,000, \$120,000 and \$100,000, respectively, in research and development.

I. Government and Environmental Management System

We own all licenses that the Chinese governments require for all aspect of our operations.

J. Competition

The Company faces limited domestic competition. Currently, most TRT, CHPG and WGPG systems are purchased, constructed and operated by the steel, cement, coking and metallurgy companies, themselves, rather than outsourced to a third-party. Our main competitors as third-party providers are state owned research institutes or their wholly owned construction companies. The reasons for low competition are high entry barriers in technology, experience, investment capital, and credibility, as well customer relationships. We believe that we offer advantages over our competitors in several ways:

1. Our management team has over 20 years of industry experience and expertise;
2. We have the capabilities to provide TRT, CHPG and WGPG systems, while our competitors usually concentrate on one type or another;
3. We have the capabilities and experience in undertaking large scale projects; and

4. We provide BOT or capital lease services to the customers, while our competitors usually use an EPC (engineering, procurement and construction) or turnkey contract model.

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K. Employees

As of December 31, 2009, we have 214 employees:

Management:	10 Employees
Administration:	9 Employees
Marketing:	25 Employees
Research & Development:	43 Employees
Accounting & Finance:	12 Employees
Project Officer:	115 Employees, including 69 operators

All of our personnel are employed full-time and none of them are represented under collective bargaining agreements. We consider our relations with our employees to be good.

L. Costs and effects of compliance with environmental laws

There were many new laws, regulations, rules and notices regarding the environment and energy production adopted, promulgated and put into force during past years. The Chinese government is putting more stringent requirements and urgency on reducing pollution and emissions and improving energy efficiency nationwide. Our products are designed and constructed to comply with the environmental laws and regulations of China. As our systems allow our customers to use waste heat and gases to create energy, we help reduce the overall environmental impact of our customers. Since our business focuses on recycling energy, the effect of the strengthening of environmental laws in China may be to increase demand for the products and services we offer and others like them.

ITEM 1A. RISK FACTORS

Risks Related to our Common Stock

The market price for our common stock may be volatile.

The market price for our common stock is highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results,
- announcements of new services by us or our competitors,
- changes in financial estimates by securities analysts,
- conditions in the energy recycling and saving services market,
- changes in the economic performance or market valuations of other companies involved in the same industry,
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- additions or departures of key personnel,
- potential litigation, or
- conditions in the market.

In addition, the securities markets from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Shareholders could experience substantial dilution.

We may issue additional shares of our capital stock to raise additional cash for working capital. If we issue additional shares of our capital stock, our shareholders will experience dilution in their respective percentage ownership in the company.

We have no present intention to pay dividends.

We have not paid dividends or made other cash distributions on our common stock during any of the past three years, and we do not expect to declare or pay any dividends in the foreseeable future. We intend to retain any future earnings for working capital and to finance current operations and expansion of our business.

A large portion of our common stock is controlled by a small number of shareholders.

A large portion of our common stock is held by a small number of shareholders. As a result, these shareholders are able to influence the outcome of shareholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

We may be subject to “penny stock” regulations.

The Securities and Exchange Commission, or SEC, has adopted rules that regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and our sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer’s account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. These additional sales practice and disclosure requirements could impede the sale of our securities. Whenever any of our securities become subject to the penny stock rules, holders of those securities may have difficulty in selling those securities.

#### Risks Related to Our Business Operations

We depend on the waste energy of our customers to generate electricity.

We acquire waste pressure, heat and gases from steelworks, cement, coking or metallurgy plants and use these to generate power. Therefore, our power generating capacity depends on the availability of an adequate supply of our “raw materials” from our customers. If we do not have enough supply, power generated for those customers will be impeded. Since our contracts are often structured so that we receive compensation based on the amount of energy we supply, a reduction in production may cause problems for our revenues and results of operations.

The global financial crisis intensified in 2009 and will adversely affect our revenues.

Although the Chinese government has indicated it will focus on keeping its economy on track, it is difficult to insulate any economy from the global financial crisis and economic downturn that intensified worldwide during 2009. After five years of growth in excess of 10 percent, the Chinese economy is beginning to weaken. Growth in exports and investment is slowing, consumer confidence is waning and stock and property markets are severely depressed. At a time when major infrastructure projects are being put off around the world, there are obvious slowdowns in China’s major industries, like iron and steel, construction and energy. Our customers in such industries may face more challenges and hardships than before and tend to take more conservative positions in their business and investment, including the purchase of TRT, CHPG or WGPG systems.



Our insurance may not cover all liabilities and damages.

Our industry can be dangerous and hazardous. The insurance we carry might not be enough to cover all the liabilities and damages that may be caused by potential accidents.

A downturn in the Chinese economy may slow down our growth and profitability.

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business. Our profitability, will decrease if less energy is consumed due to a downturn in the Chinese economy.

Our heavy reliance on the experience and expertise of our management may cause adverse impacts on us if management member departs.

We depend on key personnel for the success of our business. Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management.

Our future success is heavily dependent upon the continued service of our key executives. We also rely on a number of key technology staff for the operation of our company. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team. If one or more of our current or future key executives or employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. We do not maintain key-man life insurance for any of our key executives.

We may need more capital for the operation and failure to raise the capital we need may delay the development plan and reduce the profits.

If we don't have adequate income or our capital can't meet the requirement for expansion of operations, we will need to seek financing to continue our business development. If we fail to acquire adequate financial resources at acceptable terms, we might have to postpone our proposed business development plans and reduce projections of our future incomes.

#### Risks Related to the People's Republic of China

China's economic policy may affect our business.

All of our assets are in China, and all of our revenue comes from business in China. Therefore, our business and prospects are tied to China's economic, political and legal development.

China's economy has quickly developed over the past 20 years. The Chinese government has taken many measures to balance the economic development and the allocation of resources. Some measures may have adverse effect on our industry. For example, government's excessive investment control and changes in tax law may have adverse impacts on us.

China's economy had been changed from planned economy into market economy. In recent years, the government has taken many measures to strengthen market forces to reduce state-owned assets and set up joint ventures. However, a great portion of Chinese assets, still remains controlled by the government. In addition, the government plays a great role in industrial development. The great level of interference of government in the business and industrial development might have an adverse impact on us because we are not part of the state-owned business, and our relationship with the governmental authorities might not be as strong as those state-owned enterprises.

China's regulation of foreign currency exchange and cash out-flow may prevent us from remitting profits and dividends to the United States.

China has adopted complicated rules that govern foreign currency exchange and cash out-flow. Although we believe we meet the requirements of those rules, we may not be able to remit all of our profits to the United States and distribute dividends to our shareholders if those rules are substantially changed to restrict the cash out-flow. Foreign currency exchange rate changes might also have negative impact on our financial performance.

We may face the hindrance of China's bureaucratic system.

Foreign companies face the political, economic and legal risks when developing business in China. China's bureaucratic system might hinder investment from foreign countries.

The legal system in China has some uncertainties, which may affect the implementation of laws.

The legal system in China is a system of civil laws, based on provisions and written codes, therefore precedents and cases are not binding on the future decisions of the courts. Only after 1979 did the Chinese government begin to promulgate a comprehensive system of laws that regulate economic affairs in general and encourage foreign investment in China. Although the influence of the law has been increasing, in certain rural areas the legal system and its enforcement are not well implemented. In addition, there have been constant changes and amendments of laws and regulations over the past 30 years in order to keep up with the rapidly changing society and economy in China. Because government agencies and courts provide interpretations of laws and regulations and decide contractual disputes and issues, their inexperience on new business and new polices or regulations in certain less developed areas causes uncertainty and may affect our business. In some provincial areas, the government agencies and the courts are protectionist and may not fully enforce contractual rights against local parties. In certain areas, the intellectual property and trade secret protections are not as effective as those in the other areas in China or in the U.S. in general. Consequently, we cannot clearly foresee the future direction of Chinese legislative activities on foreign invested business and effectiveness on enforcement of laws and regulations in the less developed areas in China. The uncertainties, including new laws and regulations and changes of existing laws, as well judicial interpretation by inexperienced officials in the agencies and courts in certain areas, may cause possible problems to foreign investors.

## Where You Can Find More Information

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## ITEM 2. FINANCIAL INFORMATION.

### Note Regarding Forward-Looking Statements

This registration statement on Form 10 and other reports filed by the Company from time to time with the SEC (collectively the "Filings") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate", "believe", "estimate", "expect", "future", "intend", "plan", or the negative of these terms and similar expressions as they relate to Company or Company's management identify forward-looking statements. Such statements reflect the current view of Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors (including the risks contained in Item 1A. "Risk Factors" and the section "results of operations" below), and any businesses that Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are based on reasonable assumptions, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this registration statement, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations, and prospects.

Our financial statements are prepared in US Dollars and in accordance with accounting principles generally accepted in the United States. See "Foreign Currency Translation and Comprehensive Income (Loss)" below for information concerning the exchange rates at which Renminbi ("RMB") were translated into US Dollars ("USD") at various pertinent dates and for pertinent periods.

## OVERVIEW OF BUSINESS BACKGROUND

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 Energy Technology Co., Ltd. ("TCH"), is in the business of selling and leasing 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".

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 TCH. TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004. Beginning January 2007, the Company 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 with these businesses. On May 10, 2007, the Company 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”.

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

On September 21, 2007, the Company’s subsidiary, TCH changed its name from Shanghai TCH Data Technology Co., Ltd to “Shanghai TCH Energy Technology Co., Ltd.”

In November 2007, TCH signed a cooperative agreement with Shengwei Group for a Cement Waste Heat Power Generator Project (“CHPG”). TCH will build two sets of 12MW pure low temperature cement waste heat power generator systems for Shengwai’s two 2,500-tons-per-day cement manufacturing lines in Jin Yang and a 5,000-tons-per-day cement manufacturing line in Tong Chuan. Total investment will be approximately \$12,593,000 (RMB 93,000,000). At the end of 2008, construction of the CHPG in Tong Chuan was completed at a total cost of approximately \$6,191,000 (RMB 43,000,000) and put into operation. Under the original agreement, the ownership of the power generator system would belong to Tong Chuan from the date the system is put into service. TCH is responsible for the daily maintenance and repair of the system, and charges Tong Chuan a monthly electricity fee based on the actual power generated by the system at 0.4116 RMB per KWH for an operating period of five years with the assurance from Tong Chuan of a properly functioning 5,000-tons-per-day cement manufacturing line and not less than 7,440 heat hours per year for the electricity generator system. Shengwei Group collateralized the cement manufacturing line in Tong Chuan to guarantee its obligations to provide the minimum electricity income from the power generator system under the agreement during the operating period. At the end of the five year operating period, TCH will have no further obligations under the cooperative agreement. On May 20, 2009, TCH entered into a supplementary agreement with Shengwei Group to amend the timing for title transfer until the end of the leasing term.

On June 29, 2009, construction of the CHPG in Jin Yang was completed at a total cost of approximately \$7,318,000 (RMB 50,000,000) and put into operation. TCH will charge Jin Yang a technical service fee of \$336,600 (RMB 2,300,000) monthly for sixty months. Jin Yang has the right to purchase the ownership of the CHPG systems for \$29,000 (RMB 200,000) at the end of lease term. Jin Yang is required to provide assurance of properly functioning 5,000-tons-per-day cement manufacturing lines and not less than 7,440 heat hours per year for the CHPG. Shengwei Group collateralized the cement manufacturing lines in Jin Yang to guarantee its obligations to provide the minimum electricity income from the power generator system under the agreement during the operating period. Effective July 1, 2009, TCH outsourced the operation and maintenance of the CHPG systems in Tong Chuan and JinYang to a third party for total of \$732,000 (RMB 5,000,000) per year.

On April 14, 2009, the Company incorporated a joint venture (“JV”) with Erdos Metallurgy Co., Ltd. (“Erdos”) for recycling waste heat from Erdos 's metal refining plants to generate power and steam, which will then be sold back to Erdos. The name of the JV is Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd (“Erdos TCH”) with a term of 20 years, and the registered capital of the JV is \$2,635,000 (RMB 18,000,000). On September 30, 2009, Xi’an TCH injected additional capital of \$4.03 million (RMB 27,500,000). Total investment for the project is estimated at approximately \$74 million (RMB 500 million) with an initial investment of \$8,773,000 (RMB 60,000,000). Erdos contributed 10% of the total investment of the project, and Xi’an TCH contributed 90% of the total investment. Xi’an TCH and Erdos will receive 80% and 20% of the profit allocation from the JV, respectively, until Xi’an TCH has received a complete return on its investment. Xi’an TCH and Erdos will then receive 60% and 40% of the profit allocation from the JV, respectively. When the term of the JV expires, Xi’an TCH will transfer its equity in the JV to Erdos at no additional cost. By the end of 2009, the first power station unit was completed.

During 2008, the Company also leased two energy recycling power generation equipment systems under one-year, non-cancellable leases with the rents paid in full, which the Company was able to sublease for higher rental income under one-year, non-cancellable leases. The Company did not renew its lease when it expired in April 2009, and as a result, the sublessee was unable to renew its lease with the Company.

On September 30, 2009, Xi’an TCH delivered to Shenmu County Juijiang Trading Co., Ltd. (“Shenmu”) a set of 18 megawatt capacity Waste Gas Power Generation (“WGPG”) power generating systems pursuant to a Cooperative Contract on Coke-oven Gas Power Generation Project (including its Supplementary Agreement) and a Gas Supply Contract for Coke-oven Gas Power Generation Project. The contracts are for 10 years and provide that Xi’an TCH will recycle coke furnace gas from the coke-oven plant of Shenmu to generate power, which will then be supplied back to Shenmu. Shenmu agrees to supply Xi’an TCH the coke-oven gas free of charge. Under the contracts, Shenmu will

pay to the Company “energy-saving service fees” of approximately \$473,000 per month for the life of the contracts, as well as such additional amount as may result from the supply of power to Shenmu in excess of 10.80 million kilowatt hours per month at the rate of 0.30 yuan (approximately \$0.04) per kilowatt hour. The Company is responsible for operating the systems and will do so through an unrelated third party at a cost of approximately \$438,000 per year. Shenmu guarantees that monthly gas supply will not be lower than 21.6 million standard cubic meters, delivered monthly. If gas supply is lower than that, Shenmu agrees to pay Xi’an TCH an energy-saving service fee, of up to 10.80 million kilowatt-hours a month, the amount of which would result in “energy-saving service fees” of approximately \$473,000 per month. Xi’an TCH maintains the ownership of the project throughout the term of the contracts, including the already completed investment, design, equipment, construction and installation as well as the operation and maintenance of the project. Xi’an TCH agrees to pay to Shenmu 50,000 yuan (about \$7,300) a year to use the land for the power station. At the end of the 10-year term, ownership of the systems transfers to Shenmu at no additional charge. Shenmu agrees to provide a lien on its production line to guarantee its performance under the contracts. Three individuals provide an unlimited joint liability guarantee to Xi’an TCH for Shenmu’s performance under the Contracts and the Yulin Huiyuan Group provides a guarantee to Xi’an TCH for Shenmu’s performance under the contracts.

Starting in November 2008, the Chinese government announced a series of economic stimulus plans aimed at bolstering its weakening economy – a sweeping move to help fight the effects of the global slowdown. In the announcements, China estimated it would spend \$586 billion over the next two years – roughly seven percent of its gross domestic product each year – to construct new railways, subways and airports and to rebuild communities devastated by an earthquake in the southwest China in May 2008. The economic stimulus package is the largest effort ever undertaken by the Chinese government. The government said that the stimulus would cover ten areas, including low-income housing, electricity, water, rural infrastructure and projects aiming at environmental protection and technological innovation.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis.

### Basis of presentation

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

### Basis of consolidation

The consolidated financial statements include the accounts of CREG and, its subsidiaries, Sifang Holdings, TCH, and TCH's subsidiaries Xi'an TCH Energy Tech Co., Ltd. ("Xi'an TCH") and Xingtai Huaxin Energy Tech Co., Ltd. ("Huaxin"), and Xi'an TCH's 90% owned subsidiary Erdos TCH, and Sifang Holding's subsidiary, Huahong New Energy Technology Co., Ltd. ("Huahong"). Xi'an TCH, Huaxin, Erdos TCH and Huahong engage in the same business as TCH. Substantially all of the Company's revenues are derived from the operations of TCH and its subsidiaries, which represent substantially all of the Company's consolidated assets and liabilities as of September 30, 2009 and December 31, 2008, respectively. All significant inter-company accounts and transactions were 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.

### 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.

Financial instruments that potentially subject the Company to credit risk primarily are accounts receivable, receivables on sales-type leases 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 cost, 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

## Sales-type leasing and related revenue recognition

The Company leases TRT, CHPG and WGPG systems to its customers. The Company usually transfers all benefits, risks and ownership of the TRT, CHPG or WGPG system to its customers at the end of each lease term. The Company's investment in these projects is recorded as investment in sales-type leases in accordance with SFAS No. 13, "Accounting for Leases" (codified in FASB ASC Topic 840) and its various amendments and interpretations. The Company manufactures and constructs the TRT, CHPG and WGPG systems and power generating system, and finances its customers for the price of the systems. The sales and cost of goods sold are recognized at the point of sale or inception of the lease. The investment in sales-type leases consists of the sum of the total minimum lease payments receivable less unearned interest income and estimated executory cost. Unearned interest income is amortized to income over the lease term in order to produce a constant periodic rate of return on the net investment in the lease.

## 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" (codified in FASB ASC Topic 220). 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.

## NEW ACCOUNTING PRONOUNCEMENTS

On July 1, 2009, the Company adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification™ ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the

Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”), codified as FASB ASC Topic 810-10, which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company’s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of SFAS 167 will have an impact on its financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140” (“SFAS 166”), codified as FASB Topic ASC 860, which requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of SFAS 166 will have an impact on its financial condition, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165") codified in FASB ASC Topic 855-10-05, which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this pronouncement during the second quarter of 2009. SFAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. The Company has evaluated subsequent events through November 9, 2009.

In April 2009, the FASB issued FSP No. SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which is codified in FASB ASC Topic 825-10-50. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. These additional disclosures are required beginning with the quarter ending June 30, 2009.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which is codified in FASB ASC Topic 320-10. This FSP modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The FSP also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the FSP, impairment of debt securities will be considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The FSP further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security's fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. FSP 115-2 requires entities to initially apply the provisions of the standard to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulate other comprehensive income. The Company adopted FSP No. SFAS 115-2 and SFAS 124-2 beginning April 1, 2009. This FSP had no material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the Financial Accounting Standards Board ("FASB") issued FSP No. SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP No. SFAS 157-4"). FSP No. SFAS 157-4, which is codified in FASB ASC Topics 820-10-35-51 and 820-10-50-2, provides additional guidance for estimating fair value and emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. The Company adopted FSP No. SFAS 157-4 beginning April 1, 2009. This FSP had no material impact on the Company's financial position, results of operations or cash flows.

## RESULTS OF OPERATIONS

Comparison of Nine Months Ended September 30, 2009 and September 30, 2008

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

Nine Months Ended September 30	2009		2008 (Restated)	
	\$	% of Sales	\$	% of Sales
Sales	\$ 33,885,889	100%	\$ 6,876,223	100%
Sales of Products	27,938,697	82%	—	—
Rental income	5,946,892	18%	6,876,223	100%
Cost of sales	(25,645,744)	76%	(4,810,011)	70%
Cost of products	(21,497,172)	77%	—	—
Rental expense	(4,148,572)	70%	(4,810,011)	70%
Gross profit	8,239,845	24%	2,066,212	30%
Interest income on sales-type lease	4,117,305	12%	1,716,544	25%
Total operating income	12,357,150	36%	3,782,756	55%
Total Operating expenses	(2,730,971)	8%	(2,543,563)	37%
Income from operation	9,626,179	28%	1,239,193	18%
Total non-operating expenses	(362,405)	(1)%	(4,789,154)	(70)%
Income (loss) before income tax	9,263,774	27%	(3,549,961)	(51.6)%
Income tax expense	1,166,684	(4)%	796,458	(11.6)%
Net income (loss) attributable to noncontrolling interest	(10,898)	(0.03)%	83	-
Net income (loss)	\$ 8,107,987	24%	\$ (4,346,502)	(63)%

**SALES.** Net sales for the nine months ended September 30, 2009 were approximately \$33.89 million while our net sales for the nine months ended September 30, 2008 were \$6.88 million, an increase in revenues of approximately \$27.01 million. The increase was due to selling of one energy saving system (Jin Yang CHPG system) through sales-type leases at the end of June of 2009, and one Shenmu WGPG system through sales-type lease at the end of September of 2009, in addition to two TRT systems that were sold under sales-type leases in 2007 and one energy saving system (CHPG system) sold under sales-type leases at the end of 2008. During the nine months ended September 30, 2009, we recorded \$9.51 million revenue from sales of the Jin Yang CHPG system, \$18.43 million revenue from sales of the shenmu WGPG system, and rental income of approximately \$5.95 million from leasing our two power generating systems through an operating lease. The operating lease term ended in April of 2009. There were no sales other than operating leasing activities of \$6.88 million in the same period of 2008. Sales and cost of sales are recorded at the time of leases; the interest income from the sales-type leases is our other major revenue source in addition to sales revenue.

**COST OF SALES.** Cost of sales for the nine months ended September 30, 2009 was approximately \$25.65 million while our cost of sales for the same period in 2008 was \$4.81 million, an increase of approximately \$20.84 million. The increase was mainly due to the cost of sale for sales-type leases of the Jin Yang CHPG system and Shenmu WGPG system.

**GROSS PROFIT.** Gross profit was approximately \$8.24 million for the nine months ended September 30, 2009 as compared to \$2.07 million for the same period in 2008, representing a gross margin of approximately 24% and 30% for the nine months ended September 30, 2009 and 2008, respectively. The increase in gross profit was mainly from the profit from the sales-type lease of the Jin Yang CHPG system and Shenmu WGPG system both with gross profit

margin of about 23%, our operating lease business in connection with leasing out two energy recycling power generation equipment systems since April of 2008 with a profit margin of about 30%, which ended in April 2009.

**OPERATING INCOME.** Operating income was approximately \$12.36 million for the nine months ended September 30, 2009 while our operating income for the same period in 2008 was approximately \$3.78 million, an increase of approximately \$8.57 million. The growth in operating income was mainly due to (i) the increase in interest income from selling and leasing our energy saving systems through sales-type leases, and (ii) commencing our operating lease business since the second quarter of 2008. Interest income on sales-type leases for the nine months ended September 30, 2009 was approximately \$4.11 million, an approximately \$2.4 million increase from approximately \$1.72 million for the same period in 2008, this increase was mainly due to increased interest income on CHPG systems.

**OPERATING EXPENSES.** Operating expenses consisted of selling, general and administrative expenses totaling approximately \$2.73 million for the nine months ended September 30, 2009 as compared to approximately \$2.54 million for the same period in 2008, a increase of approximately \$187,408 or 7.37%. This slight increase was mainly due to increased expenses in connection with our sales of two energy recycling systems through sales-type lease in 2009 .

NET INCOME. Our net income for the nine months ended September 30, 2009 was approximately \$8.11 million as compared to an approximately \$4.35 million net loss for the same period in 2008, an increase of approximately \$12.44 million. This increase in net income was mainly due to the rental income commenced since the second quarter of 2008 and additional interest income from sales-type leases of the CHPG system, as well as the sales of two energy recycling systems through sales-type leases in 2009. While in the same period of 2008, we have recorded a \$4.68 million one-time expense for the unamortized portion of the beneficial conversion feature of our first \$5 million convertible note.

#### Comparison of Three Months Ended September 30, 2009 and September 30, 2008

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

Three Months Ended September 30	2009		2008 (Restated)	
	\$	% of Sales	\$	% of Sales
Sales	\$ 18,425,620	100%	\$ 4,259,807	100%
Sales of Products	18,425,620	100%	—	—
Rental income	—	0%	4,259,807	100%
Cost of sales	(14,179,421)	77%	(2,977,402)	70%
Cost of products	(14,179,421)	77%	—	—
Rental expense	—	0%	(2,977,402)	70%
Gross profit	4,246,199	23%	1,282,405	30%
Interest income on sales-type lease	1,783,833	10%	576,817	14%
Total operating income	6,030,032	33%	1,859,222	44%
Total Operating expenses	(1,375,230)	7%	(1,039,784)	24%
Income from operation	4,654,802	26%	819,438	20%
Total non-operating income (expenses)	76,516	0.4%	(59,774)	(1.4)%
Income before income tax	4,731,318	26%	759,664	18%
Income tax expense	941,962	(5)%	427,960	(10)%
Net income (loss) attributable to noncontrolling interest	(7,740)	(0.04)%	27	0%
Net income	\$ 3,797,095	21%	\$ 331,677	8%

SALES. Net sales for the third quarter of 2009 were approximately \$18.43 million while our net sales for the third quarter of 2008 were \$4.26 million, an increase in revenues of approximately \$14.17 million. We sold one power generating system (Shenmu) through a sales-type lease at the end of September. The increase in sales in the third quarter of 2009 is attributed to the sales recognized for the Shenmu power generating system compared to the same period of 2008 in which only leasing activities occurred. The leasing of two energy recycling power generation equipment systems under one-year, non-cancellable leases with the rents paid by the Company in full to generate a rental income commenced since the second quarter of 2008 and ended in April of 2009. We recorded sales of the Shenmu WGPG system of \$18.43 million; compared to the same period in 2008 was 4.26 million for rental income only. Sales and cost of sales are recorded at the time of leases; the interest income from the sales-type leases is our other major revenue source in addition to sales revenue.

COST OF SALES. Cost of sales for the third quarter of 2009 was approximately \$14.18 million while our cost of sales for the same period in 2008 was \$2.98 million, an increase of approximately 11.2 million. During the third quarter of 2009, the Shenmu WGPG system transaction occurred and has been accounted for as a sales-type lease with a cost of \$14.18 million.

**GROSS PROFIT.** Gross profit was approximately \$4.25 million for the third quarter of 2009 as compared to \$1.28 million for the same period in 2008, representing a gross margin of approximately 23% and 30% for the third quarter of 2009 and 2008, respectively. The increase in gross profit was mainly from the profit from the sales-type lease of the Shenmu WGPG system, which had a gross profit margin of about 23%.

**OPERATING INCOME.** Operating income was approximately \$6.03 million for the third quarter of 2009 while our operating income for the same period in 2008 was approximately \$1.86 million, an increase of approximately \$4.17 million. The growth in operating income was mainly due to the sale of the Shenmu WGPG system and an increase in interest income from selling and leasing our energy saving systems through sales-type leases. Interest income on sales-type leases for the third quarter of 2009 was approximately \$1.78 million, an approximately \$1.21 million increase from approximately \$0.58 million for the same period in 2008; this increase was mainly due to increased interest income on CHPG systems.

**OPERATING EXPENSES.** Operating expenses consisted of selling, general and administrative expenses totaling approximately \$1.38 million for the third quarter of 2009 as compared to approximately \$1.04 million for the same period in 2008, an increase of approximately \$335,446 or 32%. This increase was mainly due to the increased cost associated with servicing higher sales.



NET INCOME. Our net income for the third quarter of 2009 was approximately \$3.80 million as compared to an approximately \$0.33 million for the same period in 2008, an increase of approximately \$3.47 million. This increase in net income was mainly due to the sale of Shenmu WGPG system in the third quarter of 2009 and increased interest income from sales-type leases of the CHPG systems.

Comparison of Years Ended December 31, 2008 and December 31, 2007

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

Years Ended December 31	2008 (Restated)		2007	
	\$	% of Sales	\$	% of Sales
Sales	\$ 19,217,663	100%	\$ 9,302,347	100%
Sales of products	8,048,956	42%	9,302,347	100%
Rental income	11,168,707	58%	-	-
Cost of sales	(14,001,736)	73%	(7,033,400)	76%
Cost of products	(6,191,505)	32%	(7,033,400)	76%
Rental expense	(7,810,231)	41%	-	-
Gross profit	5,215,927	27%	2,268,947	24%
Interest income on sales-type lease	2,285,582	12%	1,015,712	11%
Total operating income	7,501,509	39%	3,284,659	35%
Total operating expenses	(3,354,028)	17%	(542,434)	6%
Income from operation	4,147,481	22%	2,742,225	29.5%
Total non-operating expenses	(4,734,308)	(25)%	(425,964)	(4.6)%
Income (loss) before income tax	(586,827)	(3)%	2,316,261	25%
Income tax expense	(1,632,754)	9%	(466,647)	5%
Minority interest	(83)	-	-	-
Income from operations of discontinued component	-	-	28,699	0.3%
Net income (loss)	\$ (2,219,664)	(12)%	\$ 1,878,313	20%

SALES. Net sales for 2008 were approximately \$19.22 million while our net sales for 2007 were approximately \$9.30 million, an increase in revenues of approximately \$9.92 million. The increase was due to the change in our business during 2007. We discontinued our mobile phone business and commenced selling, manufacturing and constructing energy saving systems during 2007. We sell our energy saving systems through sales-type leases. Sales and cost of sales are recorded at the time of leases; the interest income from the sales-type leases are our major revenue source in addition to sales revenue. We sold two TRT systems through sales-type leasing during 2007 with sales recorded for approximately \$9.30 million and interest income of approximately \$1.02 million, while in 2008, we sold one CHPG system through sales-type leasing with sales of approximately \$8.05 million in addition to total interest income of approximately \$2.29 million from sales-type leases. We also recorded rental income of approximately \$11.17 million from leasing our two power generating systems in 2008.

COST OF SALES. Cost of sales for 2008 was approximately \$14 million while our cost of sales for 2007 was approximately \$7.03 million, an increase of approximately \$6.97 million. The increase in cost of sales is attributed to changing our business type from a mobile phone business to manufacturing, selling, constructing and leasing the energy saving systems in 2007. Our cost of sales consisted of the cost of the energy saving systems for sales-type leases, and cost of the operating lease as we leased two power generating systems under one-year, non-cancellable leases with options to renew at a favorable price during 2008, which we subleased for higher monthly rental income under one-year, non-cancellable lease.

**GROSS PROFIT** . Gross profit was approximately \$5.22 million for 2008 as compared to approximately \$2.27 million for 2007, representing gross margins of approximately 27% and 24% for 2008 and 2007, respectively. The increase in our gross profit was mainly due to changes of our business from a mobile phone business to manufacturing, selling, constructing and leasing energy saving systems. We sold two TRT systems through sales-type leasing with gross margin of approximately 24% during 2007, while during 2008, we sold one CHPG system through sales type leasing with gross profit margin of approximately 74%, and commenced operating lease business for leasing out two energy recycling power generation equipment systems at a profit margin of approximately 30%.

**OPERATING INCOME** . Operating income was approximately \$7.50 million for 2008 while our operating income for 2007 was approximately \$3.28 million, an increase of approximately \$4.22 million. The growth in operating income was mainly due to (i) changing our business type, (ii) selling and leasing our energy saving systems through sales-type leasing and (iii) commencing operating lease business in 2008. A new sales-type lease for power generated system was commenced in 2008 in addition to our two TRT systems which were sold under sales-type leases in 2007. The sales-type lease brings us additional interest income. Interest income on sales-type lease for 2008 was approximately \$2.29 million, an approximately \$1.27 million increase from approximately \$1.02 million for 2007.

**OPERATING EXPENSES**. Operating expenses consisted of selling, general and administrative expenses totaling approximately \$3.35 million for 2008 as compared to approximately \$0.54 million for 2007, an increase of approximately \$2.81 million or 518%. This increase was mainly due to the compensation expense of approximately \$1.44 million related to the fair value of the stock options to employees, and increased payroll, marketing and traveling expense due to the expansion of our business.

NET INCOME. Our net loss for 2008 was approximately \$2.22 million as compared to approximately \$1.88 million net income for 2007, a decrease of \$4.1 million. This decrease in net income was mainly due to interest expense on our amortized beneficial conversion feature for the convertible note of approximately \$4.68 million and compensation expense of the fair value of stock options of approximately \$1.44 million for 2008. The convertible note that was issued on November 16, 2007 was repaid on June 25, 2008. The vested and non-vested employee stock options that were granted on November 13, 2007, were forfeited and cancelled on June 25, 2008. We subsequently reissued the same number of stock options on August 4, 2008; this reissuance was accounted for as a modification of the original options.

## LIQUIDITY AND CAPITAL RESOURCES

### Comparison of Nine Months Ended September 30, 2009 and September 30, 2008

As of September 30, 2009, the Company had cash and cash equivalents of \$5,683,300. At September 30, 2009, other current assets were approximately \$12.54 million and current liabilities were approximately \$21.08 million. Working capital amounted to negative \$2.86 million at September 30, 2009. The ratio of current assets to current liabilities was 0.86:1 at the nine months ended September 30, 2009.

The following is a summary of cash provided by or used in each of the indicated types of activities during nine months ended September 30, 2009 and 2008:

	2009	2008 (Restated)
<b>Cash provided by (used in):</b>		
Operating Activities	\$ 12,387,226	\$ (4,456,661)
Investing Activities	(22,164,713)	(10,189,521)
Financing Activities	8,190,797	14,387,174

Net cash flow provided by operating activities was approximately \$12.39 million during the nine months ended September 30, 2009, as compared to approximately \$4.46 million used in the same period of 2008. The increase in net cash inflow was mainly due to the increase in net income as well as a decrease in our advances to suppliers and prepaid expenses.

Net cash flow used in investing activities was approximately \$22.16 million in the nine months ended September 30, 2009, as compared to approximately \$10.19 million used in the same period of 2008. The increase of net cash flow used in investing activities was mainly due to our investment of \$9.48 million in the systems that are the subject of the sales-type leases of the Jingyang CHPG and the Shenmu WGPG projects and an \$8.25 million payment for construction in progress of Erdos and Zhonggang Binhai projects, as well as restricted cash of \$4.39 million in the bank as collateral for the same amount of bank acceptance.

Net cash flow provided by financing activities was \$8.19 million for the nine months ended September 30, 2009 as compared to net cash provided by financing activities of \$14.39 million for the same period in 2008. The \$8.19 million cash inflow from financing activities mainly consisted of common stock issued for \$2 million, convertible note issued for \$3 million, and short term bank loan of \$2.92 million, while in the same period of 2008 we received \$14 million from the issuance of common stock and convertible notes.

We believe we have sufficient cash resources to continue our current business through June 2010 due to stable interest revenue from our operating activities. As of September 30, 2009, we have five sale-type leases to generate our cash inflows, two TRT systems, two CHPG systems and one WGPG systems. We believe we have sufficient cash

resources to cover our anticipated capital expenditures for the remainder of 2009.

We do not believe that inflation has had a significant negative impact on our results of operations during 2009.

Comparison of Years Ended December 31, 2008 and December 31, 2007

As of December 31, 2008, the Company had cash and cash equivalents of \$7,267,344. At December 31, 2008, other current assets were approximately \$16.54 million and current liabilities were approximately \$11.69 million, working capital amounted to \$12.12 million at December 31, 2008. The ratio of current assets to current liabilities was 2.04:1 at the year ended December 31, 2008.

The following is a summary of cash provided by or used in each of the indicated types of activities during 2008 and 2007:

	2008 (Restated)	2007
<b>Cash provided by (used in):</b>		
Operating Activities	\$ 1,958,334	\$ 4,997,455
Investing Activities	(10,896,198)	(8,640,969)
Financing Activities	13,957,150	5,068,583

Net cash flow provided in operating activities was approximately \$1.96 million during 2008, as compared to approximately \$5 million provided in same period of 2007. The decrease in net cash provided in operating activities was mainly due to the prepaid equipment rents of approximately \$3.79 million as well as decrease in our accounts payable.

Net cash flow used in investing activities was approximately \$10.90 million for 2008, as compared to approximately \$8.64 million net cash used in investing activities for 2007. The increase of net cash flow used in investing activities was mainly due to the acquisition of equipment of \$115,000 and payment for construction in progress of approximately \$3.72 million for constructing a power generating system. We will use the BOT (build, operate, transfer) model to build and operate a system and charge the user of this system monthly electricity fees based on the actual power generated by the systems.

Net cash flow provided by financing activities was approximately \$13.96 million for 2008 as compared to net cash provided by financing activities of \$5.07 million for 2007. The increase of net cash flow provided by financing activities was mainly due to the issuance of common stock to an accredited investor for \$5 million, issuance of a convertible note to the same investor for \$5 million, and issuance of common stock to one of our major shareholders for \$4,032,258.

We believe we have sufficient cash to continue our current business through December, 2009 due to increased sales, interest revenue and rental income from operating activity as well as more than \$11 million in working capital at the end of 2008. As of Dec 31, 2008, we have 3 sale-type leases, 2 TRT and 1 CHPG, and 2 operational leases, currently generating net cash flow. We believe we have sufficient cash resources to cover our capital expenditures we anticipate in 2009.

We do not believe that inflation had a significant negative impact on our results of operations during 2008.

#### Off-Balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

#### Contractual Obligations

#### Convertible Notes Payable

As mentioned in Item 5, on November 16, 2007, the Company entered into a Stock and Notes Purchase Agreement ("Purchase Agreement") with Carlyle Asia Growth Partners III, L.P. ("CAGP") and CAGP III Co. Investment, L.P. (together with CAGP, the "Investors"). Under the terms of the Purchase Agreement, the Company sold to the Investors a 10% Secured Convertible Promissory Note in the principal amount of \$5,000,000 (the "First Note"). Additionally, the Purchase Agreement provides for two subsequent transactions to be effected by the Company and the Investors, which include (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 foregoing transactions, together with sale and purchase of the First Note, are

hereinafter referred to as the “Offering”). The subsequent transactions are contingent upon the satisfaction of certain conditions specified in the Purchase Agreement, including entry into specified energy and recycling project contracts and the purchase of certain energy recycling systems.

The First Note bore interest at 10% per annum and matured on November 16, 2009. The principal face amount of the First Note, together with any interest thereon was convertible at the option of the holders at any time on or prior to maturity, into shares of the Company’s common stock at an initial conversion price of \$1.23 per share (subject to anti-dilution adjustments). The First Note was subject to mandatory conversion upon the consummation of the aforementioned issuance and subscription of shares of the Company’s common stock under the Purchase Agreement. As more fully described in the First Note, the obligations of the Company under the First Note ranked senior to all other debt of the Company.

As collateral for the First Note, the President and a major shareholder of the Company pledged 9,653,471 shares of the Company’s common stock held by him to secure the First Note.

The First Note was considered to have an embedded beneficial conversion feature (“BCF”) because the conversion price was less than the quoted market price at the time of the issuance. Accordingly, the BCF of \$5,000,000 was recorded separately as unamortized beneficial conversion feature based on the intrinsic value method. The First Note was recorded in the balance sheet at face value less the unamortized BCF. The terms for the First Note were amended on April 29, 2008 and the First Note was repaid in full on June 25, 2008, as described below.

On April 29, 2008, the Company entered into an Amendment to the Purchase Agreement with the Investors (the "Amendment"). Under the terms of the Amendment, (i) the Company issued and the Investors subscribed for 4,066,706 shares of common stock of the Company, at \$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 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; (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 collectively with the First Note, the "Notes"); 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 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, is convertible 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. The obligation of the Company under this note is ranked senior to all other debt of the Company. The note is secured by a security interest granted to the Investors pursuant to a share pledge agreement. The Second Note is not considered to have an embedded beneficial conversion feature because the conversion price and convertible shares are contingent upon future net profits. The terms for the Note were amended and restated on April 29, 2009.

On June 25, 2008, the Company and the Investors entered into a Rescission and Subscription Agreement (the "Rescission") to rescind the conversion of the First Note and the issuance of conversion shares of Common Stock at the Second Closing pursuant to the Amendment. The Company and the Investors rescinded the conversion of the principal amount (\$5,000,000) under the First Note into 4,065,040 shares of Common Stock, and the Investors waived accrued interest on the First Note. Accordingly, the interest expense which had accrued on the note has been recorded as a decrease in interest expense for the period. At the Rescission closing, the Company repaid in full the First Note and issued to the Investors 4,065,040 shares of Common Stock at the price of \$1.23 per share for an aggregate purchase price of \$5,000,000. This was done through a cross receipt arrangement; the amortized portion of BCF was reversed to additional paid in stock. The Company has now concluded that in substance the transaction resulted in the conversion of the first \$5,000,000 note into common stock and that the remaining BCF of \$3,472,603 at the date of conversion should have been expensed.

On April 29, 2009, CREG issued an 8% Secured Convertible Promissory Note in the principal amount of \$3 million to Carlyle Asia Growth Partners III, L.P. with maturity on April 29, 2012. The note holder has the right to convert all or any part of the aggregate outstanding principal amount of this note, together with interest, if any, into shares of the Company's common stock, 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 on a date prior to March 30, 2010) and prior to the maturity date (or such later date on which this note is paid in full), at a conversion price per share of common stock equal to US \$0.80.

#### Bank Loan Payable

On April 13, 2009, Xi'an TCH entered into a one-year working capital loan agreement with the Industrial Bank Co., Ltd. Xi'an branch, to borrow \$2.9 million (RMB 20 million) at 5.3% and Xi'an TCH is required to make quarterly interest payments on the outstanding loan balance. The loan agreement contains standard representations, warranties and covenants, and the borrowed funds are to be guaranteed through a separate guaranty contract with Shanxi

Zhongze Investment Co., Ltd.

Notes Payable – Bank Acceptances

We had notes payable for bank acceptances of \$1,466,467 at September 30, 2009, which were collateralized by cash in the bank recorded as restricted cash. We endorsed the bank acceptances to vendors as payment of our obligations. Most of the bank acceptances have a maturity of less than six months.

COMMITMENTS

Zhonggang Binhai 7-Megawatt Capacity Electricity Generation Project

In September, 2008, the Company signed a contract to recycle waste gas and waste heat for China Zhonggang Binhai Enterprise Ltd. (“Zhonggang Binhai”) in Cangzhou City, Hebei Province, a world-class nickel-iron manufacturing joint venture between China Zhonggang Group and Shanghai Baoshan Steel Group. According to the contract, the Company will install a 7-Megawatt capacity electricity-generation system. It will be an integral part of the facilities designed to produce 80,000 tons of nickel-iron per year. The project will generate 7-megawatt capacity electricity and help reduce in excess of 20,000 tons of carbon dioxide emissions every year. The project started construction in March 2009 and will be completed within 11 months with approximately \$ 7.8 million (RMB 55 million) in total investment.



### Erdos's Phase One - Two 9-Megawatt Capacity Electricity Generation Project

On April 14, 2009, the Company incorporated Erdos TCH for recycling waste heat from Erdos's metal refining plants to generate power and steam, which will then be sold back to Erdos with a term of 20 years. Erdos is the world's largest Ferrosilicon alloy producer with more than 500 kilo tons annual capacity of Ferrosilicon alloy and 450 kilo tons of Silicon manganese (approximately 15% world market share). The Company plans to recycle residual heat from selected 54 furnaces over total 100 furnaces in the Erdos's production lines. Total investment for the project is estimated at approximately \$74 million (RMB 500 million) for 11 power units with capacity of 70MW electricity, with the potential to grow to 120 MW or more, and 30 tons of steam per hour. The whole project is expected to complete by the end of 2011 and supply 10% of Erdos's current electricity need. The first phase, which includes two power lines with total 18MW of capacity started in May 2009. One power line with 9MW capacity is estimated to be complete at the end of 2009.

### ITEM 3. PROPERTIES

We currently lease two office spaces, one in Xi'an and one in Shanghai. On February 1, 2010, we expanded and moved our leased office space in Xi'an within the Chang'an Metropolis Center where we previously occupied part of a floor in Tower B. Our leased space in Xi-an is now the 12th Floor of Tower A at Chang'an Metropolis Center, No. 88, Nanguanzheng Street, Xi'an, PRC. Our leased office space in Shanghai is located at Room 3163, Floor 31, Jinmao Plaza, No.88 Century Avenue, Pudong New District, Shanghai, PRC. Average monthly rent for all locations was \$11,174 in 2009 and is \$16,937 in 2010.

## ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information by each of the following as of December 31, 2009, (unless otherwise indicated) regarding their beneficial ownership of our common stock: (i) each person who is known by us to beneficially own more than 5% of our common stock; (ii) our Chief Executive Officer and the other individual named in the Summary Compensation Table in this Amended Report; (iii) each of our directors; and (iv) all of our directors and executive officers as of December 31, 2009, as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to the securities. Except as indicated by footnote, and subject to applicable community property laws, the persons and entities named in the table below have sole voting and sole investment power with respect to the shares set forth opposite each person's or entity's name.

Shares of common stock subject to options currently exercisable or exercisable within 60 days after December 31, 2009, are deemed outstanding for purposes of computing the percentage ownership of the person holding such options, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

Beneficial Owner	Common Stock Beneficially Owned	
	Number of Shares	Percent of Class
Carlyle Asia Growth Partners III, L.P. c/o The Carlyle Group 1001 Pennsylvania Avenue, NW, Suite 220 Washington, DC 20004	8,131,746(1)	20.97%
Guohua Ku	18,706,943	48.24%
Lanwei Li	90,000 (2)	*
Zhigang Wu	36,000 (3)	*
Nicholas Shao	—	*
Dr. Robert Chanson	—	*
Timothy Driscoll	—	*
Julian Ha	—	*
Sean Shao	—	*
All executive officers and directors as a group (9 persons)	18,868,943 (4)	48.66%

\* Less than one percent (1%) of outstanding shares.

(1) The amount shown and the following information is derived from Amendment No. 1 to the Schedule 13D filed jointly by (i) Carlyle Asia Growth Partners III, L.P., a Cayman Islands exempt limited partnership ("Asia Growth"), (ii) CAGP III Co-Investment, L.P., a Cayman Islands exempt limited partnership ("Co-Investment"), (iii) CAGP General Partner, L.P., a Cayman Islands exempt limited partnership, (iv) CAGP Ltd., a Cayman Islands exempt company, (v) TC Group Cayman, L.P., a Cayman Islands exempt limited partnership (vi) TCG Holdings Cayman, L.P., a Cayman Islands exempt limited partnership, and (vii) Carlyle Offshore Partners II, Ltd. A Cayman Islands exempt company, reporting beneficial ownership as of April 29, 2008. According to the amended Schedule 13D, Asia Growth and Co-Investment are the record owners of 7,785,415 and 346,331 shares of Common Stock, respectively. CAGP General Partner, L.P. is the general partner of both Asia Growth and Co-Investment. CAGP General Partner, L.P. may, by virtue of it being the general partner of Asia Growth and Co-Investment, be deemed to have voting control and investment discretion over the securities held by Asia Growth and Co-Investment. The

sole general partner of CAGP General Partner, L.P. is CAGP Ltd., a limited company that is wholly owned by TC Group Cayman, L.P. The sole general partner of TC Group Cayman, L.P. is TCG Holdings Cayman, L.P. Carlyle Offshore Partners II, Ltd. is the sole general partner of TCG Holdings Cayman, L.P. Each of CAGP Ltd., TC Group Cayman, L.P., TCG Holdings Cayman, L.P., and Carlyle Offshore Partners II, Ltd. may, by virtue of being the owner or general partner, as the case may be, of CAGP General Partner, L.P., CAGP Ltd., TC Group Cayman, L.P., and TCG Holdings Cayman, respectively, be deemed to have voting control and investment discretion over the securities held by Asia Growth and Co-Investment.

- (2) Includes 90,000 shares issuable upon the exercise of options.
- (3) Includes 36,000 shares issuable upon the exercise of options.
- (4) Includes 18,706,843 shares held directly and 162,000 shares issuable upon the exercise of options.

## ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS.

The following table sets forth our executive officers and directors, their ages and the positions held by them:

Name	Age	Position
Guohua Ku	48	Chief Executive Officer and Chairman of the Board
Lanwei Li	28	Vice President and Director of Business and Director
Xinyu Peng	41	Chief Financial Officer and Secretary
Zhigang Wu	38	Vice President, Finance
Nicholas Shao	38	Director
Dr. Robert Chanson	60	Director
Timothy Driscoll	66	Director
Julian Ha	41	Director
Sean Shao	52	Director

Guohua Ku was appointed as a director and Chief Executive Officer as of December 10, 2008. He was elected Chairman of the Board as of April 1, 2009. Prior to joining the Company, Mr. Ku served as a Senior Engineer for Yingfeng Technology from 2003 to 2007. From 1979 to 2003, Mr. Ku served in multiple capacities for Shan Xi Blast Air Blower (Group) Co., Ltd., with his last position serving as a Senior Engineer.

Lanwei Li was appointed as a director on April 1, 2009. He has worked for the Company and its predecessors since March 2005 and currently works as Vice President and Director of Business, supervising the departments of Business Development, Investment Management and Strategy Development. He has a higher education background in investment economy management.

Xinyu Peng was appointed as Chief Financial Officer of the Company on August 4, 2008. On December 10, 2008, the board of directors also appointed Mr. Peng as Secretary of the Company. Prior to joining the Company, Mr. Peng served as Vice President of Tavistock Group Asia from January 2008 to July 2008. From November 2006 to July 2008, Mr. Peng served as Chief Financial Officer and Director of MOD3 Cabinets & Home LLC. From July 2003 to July 2008, he served as Chief Financial Officer of Creative Hospitality Concepts LLC.

Zhigang Wu was appointed as Vice President, Finance starting in October 2007 and is responsible for the securities and financing activities of the Company. Before joining the Company, Mr. Wu worked for over a decade in the securities and investment industries with Guotai-Junan Securities and Zhongzheng Investment. Mr. Wu received a bachelor degree from Inner-Mongolia Finance & Economy University in 1998, with a major in international finance.

Nicholas Shao was appointed as a director of the Company on June 3, 2008, in accordance with the terms of the Shareholders Agreement between the Company and, among other parties, certain Carlyle Asia Growth investors. Mr. Shao is currently a Vice President of Carlyle Asia Growth and has worked in several international investment banks, including Credit Suisse First Boston and Morgan Stanley as a senior manager and analyst.

Dr. Robert Chanson was appointed a director of the Company on January 20, 2010, by the Board of Directors. Mr. Chanson has served as the Chairman of Calventis SA, Switzerland since 2009 and the Chairman of Samba Minerals Ltd, Australia since 2008. Mr. Chanson previously served as the Chairman and chief executive officer of AmbioCare Holding from 2001 to 2007, a director of Plant Health Care plc in the U.K. from 2004 through 2008, a director of Plant Health Care, Inc. in the U.S. from 1995 through 2004, and a director of EHC Viridian Ltd. in the U.K. from 1999 to 2001. Mr. Chanson received both his Doctorate and Master in Law degrees from the University of Zurich and his Bachelor Degree in Natural Sciences (Physics & Chemistry) with Latin from Kantons- schule Zurich' in Zurich, Switzerland.

Timothy Driscoll was appointed a director of the Company on October 30, 2009, by the Board of Directors. Mr. Driscoll currently serves as the chief executive officer of Proteus Industries, president of MTD Ventures, and president and chief of executive officer of Driscoll Management Services. Mr. Driscoll also serves as a director of American Oil and Supply International and Proteus Industries. From 1994 through 1999, Mr. Driscoll was the president and chief executive officer of Agrevo Environmental Health and was the president and chief executive officer of Roussel UCLAF Environmental Health from 1991 to 1994. Mr. Driscoll received his MBA in Finance from Xavier University and B.S. in Economics from Villanova University.

Julian Ha was appointed a director of the Company on October 30, 2009, by the Board of Directors. Since 2006, Mr. Ha has been a member of the Private Equity, Financial Officers and Legal practice groups of Heidrick & Struggles International, Inc. From 2005 through 2006, Mr. Ha was a Director in the Corporate Finance group of Evolution Securities China Limited. From 2001 to 2005, Mr. Ha was a Director of European Business Development for CapitalKey Advisors and Capital IQ. Mr. Ha was an Executive Vice President with DDL from 2000 to 2001, where he was responsible for portfolio management. Mr. Ha trained as a corporate lawyer and has practiced in New York, Washington, D.C., London, Singapore and Shanghai. Mr. Ha received his BA from Cornell University, his Masters degrees from the London School of Economics and Harvard University and his JD from the NYU School of Law.

Sean Shao was appointed a director of the Company on October 30, 2009, by the Board of Directors. Mr. Shao currently serves as a director of Agria Corporation and as the Chairman of its Compensation Committee since November 2008, as a director and Chairman of the Audit Committee of Yongye International, Inc. since April 2009, and a director and Chairman of the Audit Committee of China Biologic Products, Inc. since July 2008. Mr. Shao previously served as the Chief Financial Officer of Trina Solar Limited (“Trina”) from August 2006 to June 2008, and as the chief financial officer of ChinaEdu Corporation from September 2005 to August 2006. Mr. Shao was the chief financial officer of Watchdata Technologies Ltd. from August 2004 to September 2005 and a senior manager at Deloitte Touche Tohmatsu Beijing from October 1998 to July 2004 and Deloitte & Touche Toronto from December 1994 to November 1997. Mr. Shao received his master’s degree in health care administration from the University of California at Los Angeles in 1988 and his bachelor’s degree in art from East China Normal University in 1982. Mr. Shao is a CPA.

All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. There are no membership qualifications for directors. Pursuant to the Shareholders Agreement, dated as of November 16, 2007, between the Company and, amongst other parties, Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. CAGP III Co-Investment, L.P. has the right to appoint up to two members of the board of directors for so long as they remain investors in the Company. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

## ITEM 6. EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table summarizes the compensation earned during the years ended December 31, 2009 and 2008, by those individuals who served as our Chief Executive Officer, or Chief Financial Officer during any part of 2009 or any other executive officer with total compensation in excess of \$100,000 during 2009. The individuals listed in the table below are referred to as the “named executive officers.”

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) (3)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Guohua Ku (1) Chief Executive Officer and Chairman of the Board	2009	\$ 17,876	—	—	—	—	—	—	17,876
	2008	1,498	—	—	—	—	—	—	-\$ 1,498
Xinyu Peng(2) Chief Financial Officer and Secretary	2009	\$ 115,200	—	—	—	—	—	—	-\$115,200
	2008	\$ 40,773	—	—	—	—	—	—	-\$ 40,773

(1) Guohua Ku was appointed as Chief Executive Officer of the Company on December 10, 2008.

(2) Xinyu Peng was appointed as Chief Financial Officer and Secretary of the Company on August 4, 2008, and December 10, 2008, respectively.

### Employment Contracts

Mr. Guohua Ku entered into an employment agreement with the Company to serve as its CEO on December 10, 2008. The agreement has a two-year term starting December 10, 2008 that includes a one-month probationary

period. Mr. Ku receives a salary of \$17,876 annually for his service as CEO. The Company may terminate the employment agreement at any time without any prior notice to the employee if Mr. Ku engages in certain conduct, including, but not limited to (i) the violation of the rules and procedures of the Company or breaches the terms of the employment agreement; (ii) neglecting his duties or engages in malpractice for personal gain that damages the Company; (iii) entering into an employment relationship with any other employer during his employment with the Company; or (iv) the commission of a crime. The Company also may terminate the employment agreement upon 30 days written notice to Mr. Ku under certain other conditions, including but not limited to (i) inability to continue position due to non-work-related sickness or injury; (ii) incompetence; and (iii) the need for mass layoffs or other restructuring. Mr. Ku has the right to resign at any time upon a 30 days written notice to the Company.

Mr. Xinyu Peng entered into an employment agreement with the Company to serve as its CFO on July 17, 2008. The agreement has a two-year term starting July 17, 2008, that includes a one-month probationary period. Mr. Peng receives a salary of \$140,000 annually for his service as CFO. The Company may terminate the employment agreement at any time without any prior notice to the employee if Mr. Peng engages in certain conduct, including, but not limited to (i) the violation of the rules and procedures of the Company or breaches the terms of the employment agreement; (ii) neglecting his duties or engages in malpractice for personal gain that damages the Company; (iii) entering into an employment relationship with any other employer during his employment with the Company; or (iv) the commission of a crime. The Company also may terminate the employment agreement upon 30 days written notice to Mr. Peng under certain other conditions, including but not limited to (i) inability to continue position due to non-work-related sickness or injury; (ii) incompetence; and (iii) the need for mass layoffs or other restructuring. Mr. Peng has the right to resign at any time upon a 30 days written notice to the Company.

## Nonstatutory Stock Option Plan

The board of directors of the Company approved the China Recycling Energy Corporation 2007 Nonstatutory Stock Option Plan (the "2007 Plan") on November 13, 2007, which permits grants of nonstatutory stock options to all employees, officers, directors and consultants of the Company or its affiliates. The 2007 Plan authorizes the issuance of up to 3,000,000 shares of common stock of the Company and by its terms will expire on November 12, 2012. On November 13, 2007, the Board authorized the issuance of options on all 3,000,000 shares to eligible recipients under the 2007 Plan. These stock options had a five year term and an exercise price of \$1.23 per share.

The recipients of the outstanding stock options forfeited all of the outstanding options as of June 25, 2008 and new grants of stock options equaling 3,000,000 shares were made on August 4, 2008. These new stock options were granted with an exercise price of \$0.80 per share, the fair market value of the Company's common stock on the date of grant. Subsequent stock options were granted on November 12, 2009, with an exercise price of \$2.35. The options vest as to 15% on the date that was six months from the date of grant; vest 15% on the first anniversary of the date of grant; vest 50% on the second anniversary of the date of grant; and vest the remaining 20% on the third anniversary of the date of grant. The stock options also become fully vested upon termination without cause, termination for good reason, termination due to death or disability or in the event of a change in control of the Company. The stock options expire on the fifth anniversary of the date of grant.

## Outstanding Equity Awards at 2009 Fiscal Year-End

The following table sets forth information regarding all outstanding equity awards held by the named executive officers at December 31, 2009.

Name	Option Awards				Stock Awards Equity Incentive Plan				
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Awards: Number of Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
Guohua Ku	—	—	—	—	—	—	—	—	—
Xinyu Peng	—	—	—	—	—	—	—	—	—