CHINA RECYCLING ENERGY CORP
Form 10KSB/A
June 24, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number: 333-120431

China Recycling Energy Corporation

(Known as China Digital Wireless, Inc. prior to March 08, 2007)

(Name of Small Business Issuer in its Charter)

Nevada

(State or other jurisdiction of incorporation or organization)

90-0093373

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

429 Guangdong Road

Shanghai, China 200001

(Address of principal executive offices)

N/A

(Zip Code)

Issuer's telephone number: (011) 86-21-6336-8686

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form

10-KSB. [ ]

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

The issuer's revenues for its most recent fiscal year ended December 31, 2006 were US$ 2,889,436.

The aggregate market value of the voting common stock held by non-affiliates computed by reference to the price at which the common stock was sold, or the average bid and asked prices of such common stock, as of March 31, 2008, is $1.25. The number of shares of common stock outstanding as of December 31, 2007 and March 31, 2008 was 17,147,268 and 25,015,089 respectively.

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Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

CHINA RECYCLING ENERGY CORPORATION

(KNOWN AS CHINA DIGITAL WIRELESS, INC. PRIOR TO MARCH 08, 2007)

FORM 10-KSB

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PART III

EXPLANATORY NOTE

On April 15, 2008, China Recycling Energy Corporation (formerly known as China Digital Wireless, Inc.) (either the "Company," "we" or "our") filed the Form 10KSB for the year ended December 31, 2007. This Amendment No.1 on Form 10-KSB/A ("Amendment No.1 ") is being filed to amend the above-described Form 10-KSB for the year ended December 31, 2007 to revise and correct the following items and disclosures:

1)

Our predecessor auditor s reference to the incorrect footnote in its reissued report.

2)

The modification that our predecessor auditor should have make in its reissued report related to the adjustment made to the prior-period financial statements.

In addition, in accordance with Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, this Amendment also includes updated certifications from our President, Chief Financial Officer, and Chief Executive Officer as Exhibits 31.1, 31.2, 31.3and 32.1, 32.2 and 32.3. The remaining Items contained within this Amendment No. 1 consist of all other Items originally contained in our Form 10-KSB for the year ended December 31, 2007 filed on April 15, 2008. This Amendment No. 1 does not reflect events occurring after the filing of the original Form 10-KSB for year 2007 or modify or update those disclosures in any way other than as required to reflect the effects of the restatements.

PART I

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 08, 2007, China Recycling Energy Corporation s name was China Digital Wireless, Inc.

The information set forth in this Report on Form 10-KSB including, without limitation, that contained in Item 6, Management's Discussion and Analysis or Plan of Operation, contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance, and involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions.

Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be different from the expectations expressed in this report. In evaluating these statements, you should specifically consider various factors, including the risks outlined in the "Risk Factors" section below.

ITEM 1. DESCRIPTION OF BUSINESS

General

We currently engage in recycling energy business, providing energy saving and recycling products and services (Current Business).

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., a corporation organized under the laws of the PRC, or Shanghai TCH.

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 provides value added information services to the customers in the People s Republic of China (Previous Business).

Since January 2007, we have 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. In the first and second quarter of 2007, the Company did not engage in any substantial transaction and activity in connection to these businesses. On May 10, 2007, the Company 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 equipments, devices, hardware and software for the construction and installation of top gas recovery turbine system (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 mill to generate electricity. It has significant commercial value for the steel mills. We used the purchased properties as investment in several TRT projects that TCH expects to pursue with several large Chinese steel companies in year 2008.

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

On April 08, 2007, our Board of Directors approved and made effective a TRT Project Joint-Operation Agreement (Joint-Operation Agreement) which was conditionally entered on February 01, 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, and is engaging 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) which is to design, construct, install and operate a TRT system in Xingtai Iron and Steel Company, Ltd. (Xingtai). This project was originally initiated by a Contract to Design and Construct TRT System (Project Contract) entered by Yingfeng and Xingtai on September 26, 2006. 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 in the joint-operation mode. 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 becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests.

On October 31, 2007, Shanghai TCH entered an asset-transfer agreement with Yingfeng on 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 08, 2007 were terminated.

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-subsidiaries, Xi'an TCH Energy Technology Company, Ltd ("Xi'an TCH") and Xingtai Huaxin Energy Tech Co., Ltd. (Huaxin). 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.

Market

Analysis of the TRT market

a. Administrative Support of Chinese Government

Resource problem is a major strategic issue affecting the development of 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 indicated the government s plan to promote the use of energy saving and recycling equipments and systems. *The Outline of Energy-Saving Technology Policy of China* clearly defines that TRT ought to be widely developed. *A Review on State of comprehensive Resource Saving* issued by State Economic &Trade Commission points out that TRT skill shall be widely popularized in T1200-1500m^3 or above Furnace. Also, *A Medium and Long-term plan on Energy-Saving* issued by National Development and Reform Commission ([2004] No 2505) points out that pressure of top furnace over 0.1MPa must be equipped with the TRT system. One of *the 10th 5-Year Plans* also encouraged the development of large scaled TRT generators. *Energy-Saving Technical Requirements on Iron and Steel Enterprises Design* stipulates that pressure of top furnace over 130KPa should be equipped with Top Gas Pressure recovery turbine, taking wet dust removal equipment of dry dust or water economizing type. State Bureau of Environmental Protection (SBEP), the National Central Bank and the Banking Regulatory Commission jointly issued *Views on implementation of environmental protection to prevent financial risk*., in which there was a requirement that all companies and projects which did not satisfy relevant environmental protection standards should be strictly restricted in terms of loan issuance. SBEP (now known as Ministry of Environmental Protection of China) issued *a guidance on strengthening of environmental protection policies and regulations implemented by listed companies* (hereafter referred to guidance). This guidance indicates that all listed companies should obey two principles when disclosing information related to environmental protection. The first principle stipulates that companies involving heavy-pollution industries are mandated to provide pollution inspection report issued SBEP when applying for IPO. In absence of such report, the application will not be approved. The guidance was also reflected in a document regarding application of IPO of heavy-pollution companies, which was issued by the China Securities Regulatory Commission.

It is predicted that 200 TRT systems or plants will be installed nation wide in next three years, given the above factors. The total amount of investment will reach RMB 5 billion, (averagely RMB 2.5 million each), with an electricity-generation up to 11.2 billion KWH per year, hence yielding profit of RMB 5.6 billion. This will reduce the exhaustion of carbon dioxide by 12 million tons (an indirect profit of US$120 million due to the reduction). Put another way, this means that 4.6 million tons of standard coal may be saved (direct economic value of RMB 2 billion).

Now in China, small and medium-size enterprises have about 500 top furnaces according to a survey, among which 190 furnaces have already been equipped with the TRT system by year 2005, and about 300 TRT systems will be equipped in the next 5 years. Given investment on each TRT system, the total investment for the whole market will reach between RMB 7.5 billion Yuan.

TRT project is one of our core businesses and we have an excellent team specialized in development, installation, production and operation of TRT system and equipment. Also, the company has rich marketing experience in this field and has become a leader in TRT market.

We have invested and built 3 TRT projects in 2007(one for Shanxi Changzhi Steel Group, and two for Hebei Xingtai Steel Group).

b. Analysis of CHPG Market

CHPG is a power generation by recovering cement residual heat without additional fuel.

1.

State of the market:

In China, there are over 630 cement clinker producing lines which may produce over 700 tons of cement per day. Up to the end of year 2006, 49 CHPG systems have been put into operation. 32 of those are added-combustion type; 17 are pure-low-temperature type. At the end of the year 2007, 50 low-temperature CHPG power stations were put into operation. Domestically, it is estimated that cement production lines with an output of 2000 tons daily or higher will be equipped with 280 CHPG systems. There are three main reasons for such strong demand of CHPG systems.

First, during the period of 10th 5-year Plan, the output of NSP Production Line reached 40% of the total cement output; this performed a good foundation for CHPG.

Second, with the development of national economy, demand on electricity and coal has been increasing, and the price for such material also has been rising. This exerts a negative effect on cement enterprises. As the price of power and coal reached the 60% of the producing cost and substantially exceeded cost of raw material, companies in this field were keen to utilize CHPG in order to reduce producing cost.

Three, at the end of the 10th 5-year Plan, 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 required that 30 CHPG systems ought be established annually on cement producing lines with an output of 2000 tons daily. This actually provided policy support for development of CHPG.

2. Market prospect

Due to rapid development of CHPG, it may create a good opportunity for the development of cement residual heat boiler.

In the year 2006, eight state ministries jointly issued *Views on Adjustment of Structure of Cement Industry* which pointed out that by the year 2010, the percentage of the NSP production lines equipped with CHPG should reach 40%. According to regulation on Chinese saving-energy industry, in the future, the NSP production will gradually replace shaft kiln cement. It is predicted that total output of the cement in 2010 will reach between 1.4 billion-1.5 billion tons. The additional output provides a board space for the development of the NSP cement production. At that time, the cement produced through NSP production lines will account for over 80% of total. Like iron and steel business, cement companies also need to continually upgrade its equipment and technology. So it is estimated that there will be a demand for 400 CHPG systems in next three years. (Given an output of 1 million tons annually, 400 cement production lines will be needed in next three years.)

C. Suppliers

1.

Shanghai TCH maintains good relationship with TRT and CHPG equipment supplier. Therefore, it may enjoy advantages in equipment purchasing and thus lower investment costs for its intended projects and ensure the timely completion of these projects.

2.

Now the company has established business relationship with its business partners including Hangzhou Boiler Plant, Beijing Zhongdian Electric Machinery and so on. Therefore, we now have strong support in equipment supply and installation, and in research and development of technologies.

D. Main Customers

Our customers are mainly large-size domestic enterprises involving industry of iron and steel, cement production and high energy-consuming. We already successfully completed a number of projects in this field and now maintained a stable cash flow.

E. Demand of the Recycled Energy

The following table is the funds invested in environmental protection industry by the Chinese government (in One Hundred Million RMB Yuan).

Now, recycling energy only accounts for less than 1% in total energy consumption. As a result, due to environmental protection pressure and improvement of infrastructure in western area, recycling energy, as a special and stable energy resource, can be widely used in next 20 years in China.

F. Intellectual Property Rights

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

G. Research and Development

In 2007, the company invested about 100,000 US dollars in research and development.

H. Government and Environmental Management System

Up to now, the company has owned all licenses that Chinese governments require for all aspect of company s operation.

I. Competition

Currently, the Company' has no strong domestic competitor in its industry. As a result, it is believed that with its specialized team and its rich financial resource, the Company is at a very advantageous position in this business.

J. Employees

As of March 31, 2008, there are 112 employees in the company. These include:

Management:

9 Employees

Administration:

8 Employees

Marketing:

25 Employees

Research & Development: 25 Employees

Accounting & Finance:

10 Employees

Project Officer:

35 Employees

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.

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 likely to be 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 have from time to time experienced 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.

Neither during the preceding two fiscal years nor during the year ended December 31, 2007 did we pay dividends or make other cash distributions on our common stock, 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 or quoted on the NASDAQ system, 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 are depending on the power supply for customers

We acquire raw materials from steelworks or cement plants and use these raw materials to generate power for them. Therefore, our power generating capacity depends on the availability of adequate supply of raw material from our customers. If we do not have enough supply of raw material, power generated for those customers will be impeded. Although we have contracts, there is still risk that the customers won t be able to provide enough raw material to us. In that case, we may use the collateral that customers provided us to generate power.

Our industry contains certain level of danger and hazard. The insurance we carried might not be enough to cover all the liabilities and damages caused by the 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 conduct financing activities to continue the business development. If we fail to acquire adequate financial resources at acceptable terms, we might have to postpone the proposed business development plan and lower the projection of 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 the business in China. Therefore, our business and prospects are tied to China s economic, political and legal development.

China's economy had achieved high-speed development in 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 will have adverse impacts on us.

China's economy had been changed from planed 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 the industrial development. The great level of interference of government in the business and industrial development might have 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 will prevent us from remitting the profits and dividends to the United States

China has adopted the complicated rules that govern the foreign currency exchange and cash out-flow. Although we believe that we meet the requirements of those rules so far, 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.

The change of foreign currency exchange rate 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 the investment from Western 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 the provisions in the written form and according to which there is no priority to any legal matters. Until 1979, the Chinese Government began to promulgate a comprehensive system of law, which managed the economical affairs in general. Therefore, the all-sided influence of the law has been increasing protect to foreign investments of many forms in the past 28 years, since every branch we keep in China and the partners abide to Chinese laws and regulations. However, these laws and regulations are changeable, as the explanation and implementation include some uncertainty. For instance, we have to strengthen the legal protect that the law and/or the contract provide through administrative and judicial proceedings. Since the administration and the court of justice gave important consideration to the explanation of law and contract, these uncertain factors, including the unimplementation of our contract, will affect our business and management. In addition, the intellectual property and confidence protect cannot be as effective as the laws in the USA or other states. Consequently, we cannot foretell the future influences of Chinese law system, especially the part concerning the enterprises management, as well as the new-promulgated laws. The uncertainties, perhaps including the changes in law, or in the explanation to the laws as well as the replacement of national laws for the local regulations, may confine the possibilities of enforcement and the capability that we perfume the agreement with the State or other 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 in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

ITEM 2. DESCRIPTION OF PROPERTY

We currently leased two office spaces, on in Xi an and one in Shanghai. Our leased office space in Xi an is located at Room B-909, Chang an Metropolis Center, No. 88, Nanguanzheng Street, Xi an, People s Republic of China and we are currently paying monthly rent of approximately $ 2940. Another leased office space is located at Room 3163, Floor 31, Jinmao Plaza, No.88 Century Avenue, Pudong New District, Shanghai, People s Republic of China and we are currently paying monthly rent of $ 2966.08.

At present, we do not have insurance for equipment, operating assets and property and do not have proprietary liability insurance and other similar insurance precautions against major issues.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the NASD's Over-the-Counter Bulletin Board under the symbol "CREG." (CHDW prior to March 8, 2007). On August 6, 2004 we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc. and changed our symbol from "BAQI" to "CHDW." On March 8, 2007, we changed our name from China Digital Wireless, Inc. to China Recycling Energy Corporation, and changed our symbol from CHDW to CREG . On March 31, 2008, the last reported sales price for our common stock was $ 1.25 per share.

As of December 31, 2007, there were 17,147,268 shares of our common stock outstanding held by approximately 3952 shareholders of record.

We did not pay any cash dividends on our common stock in fiscal 2005, 2006 or 2007. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business

On January 24, 2007, a group of individual purchasers entered a share purchase agreement with a group of shareholders of China Digital Wireless, Inc. ("Company") to purchase 12,911,835 shares of Company s common stocks owned by Sellers, $ 0.001 par value, for an aggregate purchase price of $ 490,000.00. Purchasers are Guohua Ku, Hanqiao Zheng, Ping Sun, Qianping Huang, Xiaohong Zhang and Lixia Zhang. Sellers are Caihua Tai, Ming Mao, Ying Shi, Sixing Fu, Xiaodong Zhang, Tianqi Huang, Wei Huang, Jing Song, Ruijie Yu, and Weiping Jing, all of whom are shareholders of Company. In accordance with the share purchase agreement, Guohua Ku acquired 9,073,700 shares. Hanqiao Zheng acquired 2,406,365 shares. Ping Sun acquired 745,880 shares. Qianping Huang acquired 157,755 shares. Xiaohong Zhang acquired 72,018 shares. Lixia Zhang acquired 456,117 shares. This sale was a sale of restricted shares between the shareholders of the Company and the individual purchasers under Rule 144A of the Securities Act of 1933. Therefore, the Company did not issue any new share to purchasers and this sale did not change the total number of issued and outstanding shares of the Company. The proceeds of the sale were directly paid by the purchasers to the sellers and Company neither was entitled to nor received the proceeds of the sale.

On June 21, 2007, two of Company s major shareholders, Guohua Ku and Hanqiao Zheng executed and consummated a share exchange agreement with a group of individual purchasers all of whom are shareholders of Xi an Yingfeng Science and Technology Co. Ltd ("Yingfeng"). Guohua Ku and Hanqiao Zheng sold 289,427 and 2,406,365 shares of CREG s common stocks ("CREG shares") they owned, respectively, to the purchasers for a total of 8,087,376 shares of Yingfeng s common stocks ("Yingfeng Shares"), at the exchange rate of one CREG share for three Yingfeng shares. The share exchange agreement was initially negotiated and signed by Guohua Ku, Hanqiao Zheng and the representative of the purchasers on February 22, 2007. On June 21, 2007, the agreement was executed and consummated when all Purchasers and Sellers received the physical stock certificates of CREG shares and Yingfeng Shares delivered by the other party, pursuant to the Execution and Closing Clause of the share exchange agreement. As the result of this share exchange transaction, the purchasers, who are 472 individual shareholders of Yingfeng, acquired in total 2,695,792 shares of CREG s common stocks. None of the purchasers acquired more than 1% of the total issued and outstanding common stocks of CREG in this transaction. Guohua Ku and Hanqiao Zheng own 8,784,273 and 0 shares of CREG s common stocks, respectively, upon the consummation of this transaction. None of the purchasers in this share exchange transaction is a U.S Person, as such term is defined in Rule 902(k) of Regulation S, or located within the United States. This transaction is between non-U.S. Persons and takes place outside of the United States. Therefore, this transaction is exempt from registration under the Securities Act of 1933 in reliance upon the exemption from registration pursuant to Regulation S of the rules and regulations promulgated by the Securities and Exchange Commission under the Securities Act of 1933.

On August 22, 2007, Guohua Ku executed and consummated a share exchange agreement with another group of individual shareholders of Yingfeng. Under the terms of this Agreement, Guohua Ku sold 623,410 shares of CREG s common stocks he owned to the Purchasers for a total of 1,870,230 shares of Yingfeng s common stocks, at the exchange rate of one CREG share for three Yingfeng shares. As the result of this share exchange transaction, this group of Yingfeng Shareholders acquired in total 623,410 shares of CREG s common stocks. None of them acquired more than 1% of the total issued and outstanding common stocks of CREG in this transaction. Guohua Ku, owns 8,160,863 shares of CREG s common stocks after the consummation of this transaction.

On August 23, 2007, Guohua Ku executed and consummated a share purchase agreement with Hanqiao Zheng to sell 8,160,863 shares of CREG s common stocks he owned to Hanqiao Zheng for a total price of US $ 2,040,215. As the result of this share purchase transaction, Hanqiao Zheng acquired in total 8,160,863 shares of CREG s common stocks. Guohua Ku, owns 0 share of CREG s common stocks after the consummation of this transaction.

On November 13, 2007, Company adopted the 2007 Nonstatutory Stock Option Plan (the Plan). The Plan, which was effective on November 13, 2007, was intended to further the growth and financial success of Corporation by providing incentives in the form of options to acquire the common stock of the Corporation (Options) to selected employees, directors, and consultants to the Corporation and its Affiliates so that such employees and consultants may acquire or increase their proprietary interest in the Corporation.

The Plan provides that the maximum number of shares of the Company's common stock that may be issued under the Plan is 3,000,000 shares. The term of the Plan is five years, which will expire on November 12, 2012. The Board shall determine the purchase price per share of the Common Stock covered by each Option (the Option Price) at the time of the grant of the Option, which exercise price will be set forth in the applicable Option Agreement; provided that in no case will the Option Price of an Option be less than the par value of the Stock. The Option Price of each Option that is granted on the date that the Plan becomes effective shall be $1.23 per share.

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

Also on November 14, 2007, the Company entered into a Share Purchase Agreement (the "Agreement B") with Hanqiao Zheng for a cash investment of $4,032,258 in exchange for 3,278,259 shares of common stock of the Company issued at a 23-days weighted average market price of $1.23 per share.

On November 16, 2007, the Company and its wholly-owned direct and indirect subsidiaries entered into a Stock and Notes Purchase Agreement ("Purchase Agreement") with Carlyle Asia Growth Partners III, L.P., a limited partnership organized under the laws of the Cayman Islands ("CAGP"), and CAGP III Co-Investment, L.P., a limited partnership organized under the laws of the Cayman Islands (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 "Second Note" and collectively with the First Note, the "Notes") (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 bears interest at 10% per annum and matures on November 16, 2009. The principal face amount of the First Note, together with any interest thereon, convert, 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 is 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 shall rank senior to all other debt of the Company.

If issued, the Second Note will bear interest at 5% per annum and will mature five years from the date of issuance. The Second Note is convertible at a conversion price that is tied to the after-tax net profits of the Company for the fiscal year ending December 31, 2008, as described in the Second Note.

As collateral for the First Note (and the Second Note, if such Second Note is issued), Hanqiao Zheng, the President and a major shareholder of Company, pledged 9,653,471 of the shares of Company s common stock held by him to secure the First Note (and the Second Note, if such Second Note is issued) (the "Share Pledge Agreement").

In connection with the Offering, the Company, Hanqiao Zheng and Ping Sun entered into a Shareholders Agreement, dated as of November 16, 2007, with the Investors (the "Shareholders Agreement"). The Shareholders Agreement contains certain restrictions on the ability of the parties to the Shareholders Agreement to transfer their shares of the Company s common stock and provides the Investors with the right to designate up to two directors on the Company s board of directors and certain other rights, including consent rights over certain transactions and preemptive rights in respect of subsequent issuances by the Company of equity securities.

Additionally, the Company has granted certain registration rights to the Investors requiring the Company to file a registration statement covering the shares of the Company s common stock acquired by the Investors pursuant to the Offering within one hundred and twenty (120) days from the date of the Purchase Agreement (the "Registration Rights Agreement").

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

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

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of our results of operations and financial condition for the fiscal years ended December 31, 2007 and 2006 should be read in conjunction with Selected Consolidated Financial Data and our financial statements and the notes to those financial statements that are included elsewhere in this prospectus. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors , Cautionary Notice Regarding Forward-Looking Statements and Description of Business sections and elsewhere in this prospectus. We use words such as anticipate, estimate, plan, project, continuing, ongoing, expect, believe, intend, may, will, should, could, predict, and similar expressions to identify forward-looking statements. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the Risk Factors section of this Registration Statement. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Our financial statements are prepared in US Dollars and in accordance with accounting principles generally accepted in the United States. See Exchange Rates below for information concerning the exchanges 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. The Company, through its subsidiary, is currently doing the business of selling and leasing energy saving equipments. The businesses of mobile phone distribution and provision of pager and mobile phone value-added information services were discontinued in 2007. On March 8, 2007, the Company changed its name to "China Recycling Energy Corporation".

On September 6, 2001, the Company re-domiciled its state of incorporation from Colorado to Nevada.

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

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

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

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

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 1 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 ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("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 newly incorporated subsidiaries Xi'an TCH Energy Tech Co., Ltd. (Xi an TCH) and Xingtai Huaxin Energy Tech Co., Ltd. (Huaxin). Xi an TCH and Huaxin engage in same business with TCH. Substantially all of the Company's revenues are derived from the operations of TCH and its subsidiaries, which represents substantially all of the Company s consolidated assets and liabilities. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

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

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

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

Inventories

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

Property and Equipment

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

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

Sales-type leasing and related revenue recognition

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

Foreign Currency Translation and Comprehensive Income (Loss)

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

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

NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS 141R). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as minority interests - see SFAS 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;

- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;

- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and

- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, since we are a calendar year-end company we will continue to record and disclose business combinations following existing GAAP until January 1, 2009. We expect SFAS 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time.

Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Like SFAS 141R discussed above, earlier adoption is prohibited. We have not completed our evaluation of the potential impact, if any, of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

Fair Value Measurements

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

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

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

Fair Value Option for Financial Assets and Financial Liabilities

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

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

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

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2007 and December 31, 2006

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

Year Ended December 31	2007		2006	
	$	% of Sales	$	% of Sales
Sales	9,302,347		2,889,436	
Cost of sales	(7,033,400)	76%	(2,306,402)	80%
Gross profit	2,268,947	24%	583,034	20%
Interest income on sales-type lease	1,015,712	11%	-	-
Total operating income	3,284,659	35%	583,034	20%
Total Operating expenses	(542,434)	6%	(14,693,619)	509%
Income from operation	2,742,225	29%	(14,110,585)	488%
Other income (expenses), net	(425,964)	5%	123,543	4%
Net income (loss)	1,878,311	20%	(14,023,675)	485%

SALES. Net sales for 2007 were approximately $9.30 million while our net sales in 2006, were approximately $2.89 million, an increase in revenues of $6.41 million, or 223%. The increase was due to changing of our business type in 2007. We discontinued our mobile phone business and commenced selling and manufacturing of energy saving equipment during 2007. We sell our equipment through sales-type leasing, the interest income of which will be our main revenue in additional to sales revenue. We believe our sales will continue to grow because we are strengthening our sales efforts by hiring more sales person and increasing the sales channels, and improving the quality of our products.

COST OF SALES. Cost of sales for 2007 were approximately $7.03 million while our cost of sales in 2006, were approximately $2.31 million, an increase of $4.73 million, or 205%. The increase in cost of sale attributed to changing in our business type from mobile phone business to selling and manufacturing the energy saving equipment in 2007. Cost of sales as a percentage of sales was approximately 76% for 2007 and was 80% for 2006. We believe that our cost of sales will remain constant as a percentage of sales as we will improve our control on the efficiency of manufacturing facility.

GROSS PROFIT. Gross profit was $2.27 million for 2007 as compared to $0.58 million for 2006, representing gross margins of approximately 24% and 20% for 2007 and 2006, respectively. The increase in our gross profit and gross profit margin was mainly due to changing in our business type from mobile phone business to selling and manufacturing the energy saving equipment in 2007.

OPERATING EXPENSES. Operating expenses consisted of selling, general and administrative expenses totaled approximately $542,434 for 2007 as compared to $14.69 million for 2006, a huge decrease of approximately $14.15 million. We ve commenced our new business of selling and manufacturing energy saving equipments in 2007, our operating expenses was relatively low as we were in the initial stage of the business. In 2006, we ve written off about $6.46 million bad debts and $7.11 million impairment loss on deposit for business acquisition and property and equipment.

NET INCOME. Our net income for the year ended December 31, 2007 was $1.88 million as compared to approximately $14.02 million net loss for the year ended December 31, 2006, an increase of $15.90 million. This increase was mainly due to changing of our business type and structure in 2007, and our write-off of bad debts and deposits for acquisition of business and fixed assets in 2006. Our management believes that net income will continue to increase as we will continue to increase our sales, offer better quality products and control our manufacturing costs.

LIQUIDITY AND CAPITAL RESOURCES

Fiscal year ended December 31, 2007 as compared to fiscal year ended December 31, 2006

As of December 31, 2007 and 2006, the Company had cash and cash equivalents of approximately $1.63 million and $252,000, respectively. At December 31, 2007, other current assets of approximately $13.60 million and current liabilities of approximately $5.85 million, while other current assets were approximately $766,337 and current liabilities were approximately $1.12 million at December 31, 2006. Working capital amounted to $9.38 million at December 31, 2007, compared to negative working capital of $(99,638) at December 31, 2006, an increase of $9.48 million. The ratio of current assets to current liabilities was 2.6-to-1 at the year ended December 31, 2007, compared to 0.9-to-1 at the year ended December 31, 2006. The increase in working capital in 2007 compared to 2006 was primarily due to obtaining $5 million convertible notes, and increased sales and interest income during 2007 by changing our business type from mobile phone business to selling and manufacturing the energy saving equipments; the increase in the current ratio in 2007 comparing with 2006 was primarily related to increase in current portion of investment on sales-type leases, advance to suppliers and increase in inventory level.

The following is a summary of cash provided by or used in each of the indicated types of activities during year ended December 31, 2007 and 2006:

		2007		2006
Cash provided by (used in):				
Operating Activities	$	**4,997,455**	$	**(4,079,333)**
Investing Activities		**(8,640,969)**		**963**
Financing Activities		**5,068,583**		**-**

Net cash flow provided by operating activities was $4,997,455 in 2007, as compared to net cash flow used in operating activities of $4,079,333 in fiscal 2006. The increase in net cash inflows from operating activities in fiscal

2007 was mainly due to the increase in our income from sales-type leasing on the two TRT machines, and increased in our accounts payable and other payables.

Net cash flow used in investing activities was $8.64 million for 2007, as compared to net cash provided by investing activities of $963 in 2006. The increase of net cash flow used in investing activities in 2007 was mainly due to increased investment on our 2 TRT machines sales-type leases, which consisted of receivables for the total future minimum lease payments net of unearned interests.

Net cash flow provided by financing activities was $5,068,583 in 2007 as compared to net cash provided by financing activities of $nil for 2006. The increase of net cash flow provided by financing activities in 2007 was mainly due to issuance of convertible notes with 10% interest rate and maturity date on November 16, 2009.

We believe we have sufficient cash to continue our current business throughout 2008 due to increased sales, interest revenue and net income from operating activity.

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

On November 16, 2007, we entered into a Stock and Notes Purchase Agreement ("Purchase Agreement") with 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 $5,000,000, and (ii) the issuance and sale by the Company to the Investors of a 5% Secured Convertible Promissory Note in the principal amount of $15,000,000 (the "Second Note" and collectively with the First Note, the "Notes") (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 bears interest at 10% per annum and matures on November 16, 2009. The principal face amount of the First Note, together with any interest thereon, convert, 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 is 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 shall rank 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 of the shares of Company s common stock held by him to secure the First Note.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements of China Recycling Energy Corporation. and its subsidiaries including the notes thereto, together with the report thereon of Goldman Parks Kurland Mohidin-GPKM, LLP ("GPKM") are presented beginning at page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 8A. CONTROLS AND PROCEDURES

Management s Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on that evaluation, our management concluded that as of December 31, 2007, our internal control over financial reporting was not effective because of the material weaknesses described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the Company s internal control over financial reporting as of December 31, 2007, management determined that our internal control over financial reporting was subject to the following material weaknesses:

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

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

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

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

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

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

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

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

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

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

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

ITEM 8B. OTHER INFORMATION

Not applicable

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table provides information about our executive officers and directors and their respective ages and positions in the 2007 fiscal year:

As of January 24, 2007

Name	Age	Title
Tai Caihua	49	Director, President, Chairman of the Board
Huang Tianqi	34	Director, Chief Technology Officer
Jing Weiping	42	Director
Mao Ming	44	Director

Song Jing

30

Director

Fu Sixing

45

Director, Chief Executive Officer

Yu Ruijie

43

Director

Zhang Xiaodong

38

Director

Huang Wei

43

Director

Qian Fang

47

Chief Financial Officer

From January 24, 2007 to March 08, 2007

Name

Age

Title

Guohua Ku

45

Director, President, Chairman of the Board, Chief Technology Officer

Guangyu Wu

35

Chief Executive Officer

Hanqiao Zheng

49

Director

From March 08, 2007 to August 23, 2007

Name

Age

Title

Guohua Ku

45

Director, President, Chairman of the Board, Chief Technology Officer

Guangyu Wu

35

Chief Executive Officer

Hanqiao Zheng

49

Director

Mingda Rong

39,

Director, Chief Financial Officer

From August 23, 2007 to December 31, 2007

Name

Age

Title

Hanqiao Zheng

49

Director, President, Chairman of the Board

Guangyu Wu

35

Director, Chief Executive Officer

Mingda Rong

39

Director, Chief Financial Officer

As of March 31, 2008

Name

Age

Title

Hanqiao Zheng

49

Director, President, Chairman of the Board

Guangyu Wu

35

Director, Chief Executive Officer

Mingda Rong

39

Director, Chief Financial Officer

We changed the Board on January 24, 2007, a group of individuals (Purchasers) entered a share purchase agreement with a group of shareholders (Sellers) of the Company to purchase 12,911,835 shares of the Company s common stocks owned by Sellers, $0.001 par value, for an aggregate purchase price of $ 490, 000.00. Purchasers are Guohua Ku, Hanqiao Zheng, Ping Sun, Qianping Huang, Xiaohong Zhang and Lixia Zhang. Sellers are Caihua Tai, Ming Mao, Ying Shi, Sixing Fu, Xiaodong Zhang, Tianqi Huang, Wei Huang, Jing Song, Ruijie Yu, and Weiping Jing, all of whom are shareholders of Company. In connection with this share purchase transaction on January 24, 2007, Caihhua Tai (Chairman of the Board and President of the Company), Ming Mao (Director), Sixing Fu (Director, Chief Executive Officer), Xiaodong Zhang(Director), Tianqi Huang (Director, Chief Technology Officer), Wei Huang (Director), Jing Song (Director), Ruijie Yu (Director), and Weiping Jing (Director) resigned from their positions in the Board and the offices of Company. Fang Qian also resigned from her position as the Chief Financial Officer of the Company. Guohua Ku, Hanqiao Zheng, and Guangyu Wu become the Directors of the Board. Guohua Ku also became the President and Chairman of the Board of Directors and Chief Technology Officer. Guangyu Wu became the Chief Executive Officer and Secretary. Mingda Rong became the Chief Financial Officer

Guohua Ku, aged 45, graduated from Northwestern University (China) with the Master of Business Administration. He had served as the senior technology and marketing officer for several large Chinese state-owned companies. He gained tremendous experiences and developed exceptional expertise on the development and operation of TRT programs and energy recycling systems.

Hanqiao Zheng, aged 49, graduated from Northwestern University of Agricultural and Forestry Technologies. He worked in the Weinan Municipal Government from 1982 to 1996 and afterwards served at a management position in

Shaanxi Province Machinery Import/Export Co., Ltd.

Guangyu Wu, aged 35, graduated from the International Finance Program of Heilongjiang Harbin Investment Institute. He owns the title of Senior Economist and had worked in several large financial and commercial institutions including China Construction Bank, SEG Trust, and Sunark Pegasus Group. He is specialized in financial investment, business administration and strategic planning.

Mingda Rong, aged 39, is a Chinese certified public accountant. He graduated from the Open University of Hong Kong with the Master of Business Administration. He served as the accountant in Xi an Institute of Finance and Economics from 1989 to 2000. After that he worked in Xi an Sigma CPA firm.

On March 08, 2007, Mingda Rong, our Chief Financial Officer, also became the Director of the Board.

On August 23, 2007, in connection with the share purchase transaction between Guohua Ku and Hanqiao Zheng dated on August 23, 2007, Guohu Ku resigned from his positions in the Board and the offices of Company. Hanqiao Zheng was elected to be the President and the Chairman of the Board of Directors of the Company.

Family Relationships

There are no family relationships among our directors or officers.

Audit Committee and Audit Committee Financial Expert

Our board of directors established our audit committee in April 2005. The audit committee reviews and recommends to the directors the independent auditors to be selected to audit our financial statements; meets with the independent auditors and financial management to review the scope of the proposed audit procedures to be utilized; reviews with the independent auditors, internal auditor, and our financial and accounting personnel, the internal accounting and financial controls, and elicits any recommendations for the improvement thereof; reviews our financial statements and reports the results of the annual audit to the board of directors.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and certain other shareholders to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and certain other shareholders are required by regulation to furnish us with copies of all Section 16(a) forms they file. As of March 31, 2008, Hanqiao Zheng, one of our directors and principal officers, have filed two Form 3 and three Form 4; Guohua Ku, one of our director and principal officers, have filed one Form 3 and three Form 4. CAGP General Partner, L.P., one of our beneficial owners, filed one Form 3.

The following former directors, officers and certain shareholders did not file Form 4 in connection with the share purchase transaction dated on January 24, 2007:

Caihhua Tai (Chiarman of the Board and President of the Company), Ming Mao (Director), Sixing Fu(Director, Chief Executive Officer), Xiaodong Zhang(Director), Tianqi Huang(Director, Chief Technology Officer), Wei Huang (Director), Jing Song (Director), Ruijie Yu (Director), Weiping Jing (Director) and Fang Qian (Chief Financial Officer).

ITEM 10. EXECUTIVE COMPENSATION

None of the executive officers received salary and bonus compensation in excess of $100,000 during the 2007 fiscal year.

According to the 2007 Non-statutory Stock Option Plan adopted by Company on November 13, 2007, Guangyu Wu, our Chief Executive Officer and director, received 200,000 Stock Options. The Board shall determine the purchase price per share of the Common Stock covered by each Option (the Option Price) at the time of the grant of the Option, which exercise price will be set forth in the applicable Option Agreement; provided that in no case will the Option Price of an Option be less than the par value of the Stock. The Option Price of each Option that is granted on the date that the Plan becomes effective shall be $1.23 per share.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth, as of December 31, 2007 and March 31, 2008, the number and percentage of our outstanding shares of common stock that were beneficially owned by (i) each director and executive officer of the Company, (ii) each person known to the Company to be the beneficial owner of five percent or more of the outstanding shares of common stock of the Company, and (iii) all directors and officers of the Company as a group. Unless otherwise indicated, the person or entity listed in the table is the beneficial owner of, and has sole voting and investment power with respect to, the shares indicated.

As of December 31, 2007:

Name	Amount of Shares	Percent of Voting Shares
Hanqiao Zheng	8,160,863	47.6 %
	8,160,863	47.6 %

Directors and Executive officers as a group

As of March 31, 2008