CHINA RECYCLING ENERGY CORP
Form 10QSB
August 14, 2007

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2007

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

For the Transition Period From _________ to _________

0-12536
(Commission File Number)

CHINA RECYCLING ENERGY CORPORATION
(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada
(State or Other jurisdiction of Incorporation or Organization)

90-0093373
(IRS Employer Identification No.)

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

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

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

Page 1

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

As of August 15, 2007, there were 17,147,268 shares of $.001 par value common stock outstanding.

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

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2007
ASSETS	(unaudited
Current assets:	
Cash and cash equivalents	$ 3,600
Value-added tax recoverable	144,848
Due from a third party	4,021,183
Other receivables	121
Total current assets	4,169,752
Non current assets:	
Investment in direct financing leases, net	3,595,648
Construction-in-progress	1,368,902
TOTAL ASSETS	$ 9,134,302
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 3,043,364
Advance from customers	26,361
Due to a related party	825,752
Due to a director	36,751
Income tax payable	46,614
Accrued liabilities and other payables	1,005,203
Total current liabilities	4,984,045
Stockholders' equity:	
Common stock, $0.001 par value; 100,000,000 shares authorized; 17,147,268 shares issued and outstanding	17,148
Additional paid-in capital	4,229,845

Statutory reserves	574,666
Accumulated other comprehensive income	1,565,852
Accumulated deficits	(2,237,254)
Total stockholders' equity	4,150,257
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,134,302

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues from direct financing leases	$ 206,561	$ --	$ 397,277	$ --
Cost of revenues	19,383	--	32,153	--
Gross profit	187,178	--	365,124	--
Operating expenses:				
General and administrative	37,699	20,082	76,471	156,267
Total operating expenses	37,699	20,082	76,471	156,267
Income (loss) from operations	149,479	(20,082)	288,653	(156,267)
Other income:				
Interest income	59	--	104	120

Income (loss) before income taxes	149,538	(20,082)	288,757	(156,147)
Income tax expense	(46,614)	--	(46,614)	--
Net income (loss) from continuing operations	102,924	(20,082)	242,143	(156,147)
Discontinued operations				
Income from operations of discontinued components	--	--	33,299	204,199
Net income (loss)	102,924	(20,082)	275,442	48,052
Other comprehensive income:				
- Foreign currency translation gain	264,539	12,803	528,178	50,798
Comprehensive income (loss)	$ 367,463	$ (7,279)	$ 803,620	$ 98,850

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss) from continuing operations per common share - Basic and diluted	$ 0.01	$ (0.00)	$ 0.01	$ (0.01)
Net income from discontinuing operations per common share - Basic and diluted				

	$ --	$ --	$ 0.00	$ 0.01
Weighted average number of common shares outstanding - Basic and diluted	17,147,268	17,147,268	17,147,268	17,147,268

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	275,442	48,052
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Income from operations of discontinued components	(33,299)	(204,199)
Changes in operating assets and liabilities:		
Advances and deposits to suppliers	755,635	--
Due from related parties	3,446,275	--
Due from a related party	(4,021,183)	--
Value-added tax recoverable	(144,848)	--
Other receivables	(121)	--
Accounts payable	3,043,364	--
Advance from customers	(115,471)	--
Amount due to a director	36,751	--
Income tax payable	46,614	--
Accrued liabilities and other payables	62,796	--
Net cash provided by (used in) operating activities of continuing operations	3,351,955	(156,147)

Net cash provided by operating activities of discontinued operations	10,265	116,400
Net cash provided by (used in) operating activities	3,362,220	(39,747)
Cash flows from investing activities:		
Investment in direct financing lease	(3,595,648)	--
Increase in construction-in-progress	(1,368,902)	--
Due to a related party	825,752	--
Net cash used in investing activities of continuing operations	(4,138,798)	--
Net cash used in investing activities of discontinued operations	--	(2,494,699)
Net cash used in investing activities	(4,138,798)	(2,494,699)
Foreign currency translation adjustment	528,178	41,410
NET CHANGE IN CASH AND CASH EQUIVALENTS	(248,400)	(2,493,036)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	252,000	3,578,367
CASH AND CASH EQUIVALENTS, END OF PERIOD	3,600	1,085,331

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2007	2006
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ --	$156,911
Cash paid for interest expenses	$ --	$ --

NON-CASH INVESTING AND FINANCING ACTIVITIES

Investment in direct financing lease	$ 2,465,770	$ --
Rental income offset with due to a related party	$ 916,383	$ --

See accompanying notes to condensed consolidated financial statements

NOTE-1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with both generally accepted accounting principles for interim financial information, and the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, considered necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

These unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to our annual audited condensed consolidated financial statements for the preceding fiscal year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto contained in our Annual Report on Form 10-KSB for the year ended December 31, 2006.

NOTE-2 ORGANIZATION AND BUSINESS BACKGROUND

On May 8, 1980, China Recycling Energy Corporation (the "Company") (formerly China Digital Wireless, Inc.) was incorporated under the laws of the State of Colorado.

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

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

Since January 2007, the Company has gradually phased out and substantially scale down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first 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. These businesses are reflected in continuing operations for all periods presented as the criteria for discontinued operations prescribed by Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

On February 1, 2007, the Company's subsidiary, TCH, entered into a TRT Project Joint-Operation Agreement ("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.

Under the Joint-Operation Agreement, TCH and Yingfeng jointly operate 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 into between Yingfeng and Xingtai on September 26, 2006. TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, TCH becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests.

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

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

NOTE-3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Basis of presentation

These accompanying condensed 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.

- Use of estimates

In preparing these condensed 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.

- Basis of consolidation

The condensed consolidated financial statements include the accounts of CREG, its wholly owned subsidiary, Sifang Holdings, and its wholly owned subsidiary TCH. Substantially all of the Company's revenues are derived from the operations of TCH, which represents substantially all of the Company's consolidated assets and liabilities as of June 30, 2007.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of directors.

All significant inter-company balances and transactions within the Company have been eliminated on consolidation.

- Cash and cash equivalents

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

- Accounts receivable and concentration of credit risk

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit

checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of June 30, 2007 and 2006, the Company recorded an allowance for doubtful accounts of $nil and $4,387 respectively.

- Construction-in-progress

Construction-in-progress includes construction costs of a TRT system other than the one operated in Xingtai. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

o Impairment of long-life assets

In accordance with SFAS No.121, "Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", a long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews long-lived assets, if any, to determine the carrying values are not impaired, as fully explained in Note 4.

o Revenue recognition

The Company derives revenues from leasing TRT system to Xingtai under direct financing lease contract. Such lease transfers substantially all benefits and risks of TRT system ownership to Xintai. The Company's investment in direct financing lease are recorded in accordance with SFAS No. 13, "Accounting for Leases" and its various amendments and interpretations. The investment in direct financing lease consists of the sum of the total future minimum contracted payments receivable and the estimated unguaranteed residual value of lease equipment, less unearned finance income. Unearned finance income, which is recognized as revenue over the term of the financing by the effective interest method, represents the excess of the total future minimum lease payments plus the estimated unguaranteed residual value expected to be realized at the end of the lease term over the cost of the relate equipment.

o Cost of revenue

Cost of revenue consists primarily of related business tax of 5% on revenues from direct financing lease.

o Comprehensive income

SFAS No.130, "Reporting Comprehensive Income", establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income, as presented in the accompanying statement of changes in stockholders' equity consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

o Income taxes

The Company accounts for income taxes in interim periods as required by Accounting Principles Board Opinion No.28, "Interim Financial Reporting" and as interpreted by FASB Interpretation No.18, "Accounting for Income Taxes in

Interim Periods". The Company has determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during the Company's fiscal year to the Company's best current estimate.

The estimated annual effective tax rate is applied to the year-to-date ordinary income (or loss) at the end of the interim period.

o Net income (loss) per share

The Company calculates net income (loss) per share in accordance with SFAS No.128, "Earnings per Share". Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding. Diluted net income (loss) per share is computed similar to basic net income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive. The Company did not have any potentially dilutive common share equivalents as of June 30, 2007 and 2006.

o Foreign currencies translation

The functional and reporting currency of the Company is the United States dollars ("U.S. dollars"). The accompanying condensed condensed consolidated financial statements have been expressed in U.S. dollars.

The functional currency of the Company's foreign subsidiaries is the Renminbi Yuan ("RMB"). The balance sheet is translated into United States dollars based on the rates of exchange ruling at the balance sheet date. The statement of operations is translated using a weighted average rate for the year. Translation adjustments are reflected as cumulative translation adjustments in stockholders' equity.

o Segment reporting

SFAS No.131 "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company operates in one reportable operating segment.

o Fair value of financial instruments

The carrying value of the Company's financial instruments, which include cash and cash equivalents, accounts receivables, inventories, advances and deposits to suppliers, accounts payable, other current liabilities, approximate their fair values due to the short-term maturity of these instruments.

o Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

o Recently issued accounting standard

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted FIN48 on January 1, 2007. The adoption of FIN 48 did not have an effect on the results of operations or financial condition. The Company did not have any unrecognized tax benefits as of June 30, 2007.

On February 15, 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.159, "The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No.115" ("SFAS 159"). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS No.159 are elective; however, the amendment to FASB No.115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157. Management is currently evaluating the impact of SFAS 159, if any, on the Company's financial statements.

NOTE-4 DISCONTINUED OPERATIONS

Since January 2007, the Company has gradually phased out and substantially scale down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first 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. Accordingly, the results of the discontinued operations have been segregated from continuing operations in the consolidated statements of operations and cash flows for the six-month periods ended June 30, 2007 and 2006. The discontinued operations incurred an income of $33,299 and the basic income per share from discontinued operations was $0.00. The income represented the written back of deferred revenue generated from the provision of pager value-added information services.

NOTE-5 ACCOUNTS RECEIVABLE

The majority of the Company's sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, management has determined no allowance for doubtful accounts for the three and six months ended June 30, 2007.

NOTE-6 DUE FROM A THIRD PARTY

The amount due from a third party, a Shanghai-based privately owned enterprise

established under the laws of the PRC, is unsecured, non-interest bearing and repayable in the next twelve months.

NOTE-7 INVESTMENT IN DIRECT FINANCING LEASES

Under direct financing lease, TCH leases the TRT system to Xintai with a term of five years. Unguaranteed residuals for direct financing leases represent the estimated amounts recoverable at lease termination from lease extension or disposition of the equipment.

The components of the net investment in direct financing leases as of June 30, 2007 are as follows:

Total future minimum lease payments	$ 6,524,317
Estimated executory costs	(217,477)
Unearned rental income	(4,688,258)
Residuals, net of unearned residual income	1,977,066
	$ 3,595,648

As of June 30, 2007, the future minimum rentals to be received on non-cancelable direct financing leases are as follows:

Six months ending December 31, 2007	$ 830,365
Year ending December 31, 2008	1,423,488
2009	1,423,488
2010	1,423,488
2011	1,423,488
	$ 6,524,317

NOTE-8 DUE TO A DIRECTOR

The amount due to Yingfeng represented the capital investment in TRT project paid by Yingfeng on behalf of the Company during the six months ended June 30, 2007. The amount due is unsecured, non-interest bearing and repayable in the next twelve months.

NOTE-9 DUE TO A DIRECTOR

The balances due to a director represented unsecured advances which are interest free and repayable in the next twelve months.

NOTE-10 ACCRUED LIABILITIES AND OTHER PAYABLES

Accrued liabilities and other payables consist of the following:

	June 30, 2007
Other payables	$ 78,127
Employee welfare payable	236,346
Accruals	690,730
	$ 1,005,203

NOTE-11 INCOME TAXES

The Company is registered in the United States of America and has operations in the United States of America and the PRC. For the three and six months ended June 30, 2007, the operation in the United States of America had not incurred any operating cost.

The Company's subsidiary generated substantially all of its net income from its PRC operation and has recorded income tax provision of $46,614 for the three and six months ended June 30, 2007. Its effective income tax rates for the three and six months ended June 30, 2007 were 15%. There were no effective income tax rates for the three and six months ended June 30, 2006 since the PRC operation incurred net operating losses.

NOTE-12 CHINA CONTRIBUTION PLAN

The PRC has been undergoing significant reforms with regard to its employee welfare and fringe benefits administration. Any enterprise operating in the PRC is subject to government-mandated employee welfare and retirement benefit contributions. In accordance with PRC laws and regulations, TCH participates in a multi-employer defined contribution plan pursuant to which TCH is required to provide employees with certain retirement, medical and other fringe benefits. PRC regulations require TCH to pay the local labor administration bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The local labor administration bureau, which manages various investment funds, will take care of employee retirement, medical and other fringe benefits. TCH has no further commitments beyond its monthly contribution. TCH contributed a total of $nil and $26,664 for the six months ended June 30, 2007 and 2006 respectively.

NOTE-13 CONCENTRATION AND RISK

(a) Major customers

For the six months ended June 30, 2007, 100% of the Company's assets were located in the PRC and 100% of the Company's revenues were derived from customers located in the PRC.

For the six months ended June 30, 2007, customer who accounts for 10% or more of revenues is presented as follows:

Customer	Revenue	Percentage of revenue	Accounts receivable
Customer A	$ 397,277	100%	$ 191,238

(b) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

NOTE-14 CAPITAL COMMITMENT

As of June 30, 2007, the Company has contracted to invest in a TRT System project amounting to approximately $3,900,000 (RMB 30,000,000), of which $3,790,000 (RMB 28,722,145) was paid to purchase the project equipments.

NOTE-15 COMPARATIVE FIGURES

Comparative figures included in prior year's consolidated balance sheet and the consolidated statements of operations and cash flows have not been included in these condensed consolidation financial statements as they were not comparable because the Company had discontinued its business in mobile phone distribution and provision of pager and mobile phone value-added information services and changed to recycling energy business in the provision of energy saving and recycling products and services.

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

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

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

Overview of Business Background

On May 8, 1980, China Recycling Energy Corporation (the "Company") (formerly known as China Digital Wireless, Inc.) was incorporated under the laws of the State of Colorado.

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

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

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

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. In the first quarter of

2007, the Company did not engage in any substantial transaction and activity in connection to these businesses.

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

Under the Joint-Operation Agreement, TCH and Yingfeng will jointly pursue a top gas recovery turbine project ("Project") which is to design, construct, install and operate a TRT system in Xingtai Iron and Steel Company, Ltd. ("Xingtai"). This project was originally initiated by a Contract to Design and Construct TRT System ("Project Contract") entered by Yingfeng and Xingtai on September 26, 2006. TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, TCH becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests. TCH also entered direct financing lease with Xingtai. Under the direct financing lease, TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices to complete a TCH system and leases the TRT system to Xingtai with a term of five years. The total future minimum lease receivables under the direct financing lease are $ 6,781,863. In February and March 2007, the Company and TCH have taken several preliminary actions in preparation for the full pursuit of the Project, including selecting and purchasing necessary components and software for TRT system, organizing and training the technician team for the Project and developing the construction and installation plan for the TRT system. On April 08, 2007, the Board of the Company approved and made effective this Joint-Operation Agreement.

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

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

In connection with the change of business operations, the Company has established a technical team that is composed of recognized experts and technicians specialized in the development and construction of energy saving and recycling systems.

Discussion and Analysis of Operating Results

Six months ended June 30, 2007 Compared to Six months Ended June 30, 2006

Discontinued Operation

Since January 2007, the Company has gradually phased out and substantially

scaled down most of its business of mobile phone distribution, advertising services and provision of pager and mobile phone value-added information services. On May 10, 2007, the Company approved and announced that it completely ceased and discontinued these businesses. For the six months ended June 30, 2007, the Company did not engage in any transaction and activity in connection to these businesses. Accordingly, the results of the discontinued operations have been segregated from continuing operations in the consolidated statements of operations and cash flows for the six-month periods ended June 30, 2007 and 2006. For the six months ended June 30, 2007, there was no sales revenue from product sales, product sales to related parties, and net information and advertising service revenue related to the discontinued operations and there was no cost of goods sold and cost of service related to discontinued operations, either. The discontinued operations incurred an income of $33,299 and $204,199 for the six month periods ended June 30, 2007 and 2006, respectively and the basic income per share from discontinued operations was $0.00 and $0.01 for the respective periods. This income represented the write down of deferred revenue generated from the provision of pager value-added information services.

Revenues from direct financing lease

Revenues for the six months ended June 30, 2007 were $397,277, which represents the revenue received from Xingtai under the direct financing lease.

Cost of Revenues

Total cost of revenue for the six months ended June 30, 2007 consists primarily of related business tax of 5% on revenues from direct financing lease between the Company and Xingtai. Total cost of revenue for the six months ended June 30, 2007 was $32,153.

Gross profit

After taking into account the cost of revenues, our gross profit for the six months ended June 30, 2007 was $365,124. The gross profit consists of the gross profits from the operation in the business of energy saving and recycling systems and services for the six months ended June 30, 2007.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2007 decreased by $79,796 to $76,471 compared to $156,267 for the same period of the prior year, representing a 51.1% decrease. The decrease was mainly due to the discontinuance of the business of mobile phone distribution advertising services and provision of pager and mobile phone value-added information services.

Interest income, net

During the six months ended June 30, 2007, the interest income derived from bank deposits decreased by $16 to $104, compared to $120 for the same period of the prior year.

Income from operations of discontinued components

Since January 2007, the Company has gradually phased out and substantially scaled down most of its business of mobile phone distribution and provision of pager and mobile phone value-added information services. For the six months ended June 30, 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. Accordingly, the results of the discontinued operations have been segregated from continuing operations in the statements of operations and cash flows for the six-month periods ended June 30, 2007 and 2006. The discontinued operations incurred an income of $33,299 and $204,199 for the six month periods ended June 30, 2007 and 2006, respectively and the basic income per share from discontinued operations was $0.00 and $0.01 for the respective periods. The income represented the write down of deferred revenue generated from the provision of pager value-added information services.

Net income from continuing operation in energy saving and recycling businesses

For the six months ended June 30, 2007, we recorded a net income of

$242,143 received from our new operations in energy saving and recycling businesses. Compared to the first quarter of 2007 when we first started to engage in energy saving and recycling businesses, the net income from these new operations was increased by $ 139,219, due to the growth of our energy saving and recycling businesses.

Foreign currency translation gain

Foreign currency translation gain for the six months ended June 30, 2007 increased by $477,380 to $528,178 compared to $50,798 for the same period of the prior year, representing a 939.8% increase. The increase was mainly due to the continuous appreciation of RMB Yuan against US Dollars.

Comprehensive income.

We recorded comprehensive income of $803,620 for the six months ended June 30, 2007, a $704,770 increase in comprehensive income compared to comprehensive income of $98,850 for the same period of the prior year, representing an increase of approximately 712.97%. The increase in comprehensive income was attributable to (i) the revenues received from the direct financing lease related to the Company's continuing operation in energy saving and recycling businesses and (ii) the increase of foreign currency translation.

Net income from continuing operations per share

For the six months ended June 30, 2007, our net income from continuing operation per share was $0.01 compared to the $0.01 net loss from continuing operation per share for the same period of the prior year, representing a net increase of $ 0.02 per share. The increase in net income per share is attributable to the revenues and earnings received from our new operations in energy saving and recycling business.

Liquidity and Capital Resources

Our net cash used during the six months ended June 30, 2007 was $ 248,400 compared to net cash of $ 2,483,648 used during the same period in 2006, which represents a net change of $2,235,248.

Net cash flows provided by operating activities including the discontinued operations and continued operations was $3,362,220 during the six months ended June 30, 2007 compared to net cash flows used in operating activities of $39,747 during the same period of the prior year.

Net cash flows used in investing activities related to the continuing operations in energy saving and recycling business for the six months ended June 30, 2007, including was $4,138,798.

Net cash provided by financing activities for the six months ended June 30, 2007 was nil.

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

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

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted FIN48 on January 1, 2007. The adoption of FIN 48 did not have an effect on the results of operations or financial condition. The Company did not have any unrecognized tax benefits as of June 30, 2007.

On February 15, 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.159, "The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No.115" ("SFAS 159"). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS No.159 are elective; however, the amendment to FASB No.115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157. Management is currently evaluating the impact of SFAS 159, if any, on the Company's financial statements.

ITEM 3. CONTROLS AND PROCEDURES

Prior to the conclusion of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13(a)-14(c). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

There were no changes in our internal controls over financial reporting that materially affected or are reasonably likely to materially affect our internal control over financial reporting during the quarter ended June 30, 2007.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

On 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

31.1	Chief Executive Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

China Recycling Energy Corporation (Registrant)

Date: August 14, 2007

/s/ Guohua Ku

Guohua Ku,
President and Chairman

Date: August 14, 2007

/s/ Guangyu Wu

Guangyu Wu
Chief Executive Officer

Date: August 14, 2007

/s/ Mingda Rong

Mingda Rong
Chief Financial Officer