

China Recycling Energy Corp.

OTC BB: CREG Industry: Clean Tech

INITIATING COVERAGE

Buy, \$ 4.50

November 23, 2009

MARKET DATA

Share Price:	2.75
Market Cap:	106.65 M
52wk Range:	0.22—2.85
Ave. Volume:	53,000
Basic S/O:	38.78 M
Diluted S/O:	50.78 M
Float:	11.92 M
Institutional %:	0%
Insider %:	69%

FINANCIAL DATA (mrq)

Cash:	10.08 M
ST Debt:	2.93 M
LT (Convertible) Debt:	8.00 M
Book Value:	43.69 M
EBITDA (ttm):	14.00 M
CFFO (ttm):	18.80 M

USD 2008A 2009e 2010e 2011e

Revenue (in Millions of USD)

	2008A	2009e	2010e	2011e
March	0.00	4.32A	15.11	12.21
June	2.62	11.14A	0.00	12.21
Sept	4.26	18.43A	12.21	12.21
Dec	12.34	6.11	12.21	12.21
REV*	19.22	39.99	39.53	48.84
<i>P/S</i>	<i>5.55</i>	<i>2.67</i>	<i>2.70</i>	<i>2.18</i>

EPS

	2008A	2009e	2010e	2011e
March	(0.04)	0.02A	0.07	0.09
June	(0.11)	0.07A	0.04	0.10
Sept	0.01	0.08A	0.08	0.10
Dec	0.04	0.05	0.09	0.11
EPS	(0.04)	0.23	0.28	0.40
<i>P/E</i>	<i>N/A</i>	<i>11.96</i>	<i>9.82</i>	<i>6.88</i>

**Revenue is recorded only at the start of a new lease. Interest Income in Sales-Type Leases, as can be seen on p. 8, provides a better picture of CREG's operations.*

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Waste energy recycler reduces pollution while offering attractive returns to customers and shareholders

Key Points

- The Company offers customers an environmentally-friendly system that enables the lessee to cut net energy costs while paying China Recycling lucrative lease payments.
- China Recycling enters into long-term (5-20 years) leases that provide average rates of return between 20% and 30%.
- Due to infrastructure spending, more stringent environmental standards, cost reduction and more control over electricity, management believes roughly 1,500 of its systems will be needed in China over the next three to five years.
- The Company faces little third party competition for its complete range of services and prices its systems competitively with the cost of a customer internalizing the project.
- China Recycling's stock has no institutional ownership and is owned heavily by its CEO, Ku Guohua, and its strategic investor, Carlyle Asia Growth Partners.
- The Company is actively working to have its stock listed on an exchange, with hopes of completion before the end of 2009.
- Our model includes only Zhonggang Binhai and the entire Erdos project in our 2010 and 2011 estimates providing additional upside should it be able to complete any MOUs or projects under development. With only these two additional projects being completed, China Recycling trades at roughly 10 times our 2010 diluted EPS estimate and 7 times our 2011 diluted EPS estimate.

Valuation

We are initiating coverage of China Recycling Energy Corp. with a Buy rating and \$4.50 target price. Our target price is based on a P/E multiple of 16 times our 2010 diluted EPS estimate of \$0.28. We believe this multiple is fair given the long-term visibility provided by its leases, but would like to see continued success in signing and completing new contracts and how the Company funds its capital needs in 2010 and beyond. That said, we believe China Recycling has a great deal of upside given the vast market in China seeking energy savings and pollution control.

Business Summary

China Recycling Energy Corp., located in Xi'an, China, leases three types of energy generation systems through its BOT model that use captured industrial process waste streams as the fuel for its systems. The types of systems currently offered by CREG include Pressure-to-Energy (TRT), Heat-to-Energy (CHPG), and Gas-to-Energy (WGPG and CCPP) Systems.

COMPANY OVERVIEW

China Recycling Energy Corp., located in Xi'an, China, leases three different types of energy generation systems that use captured industrial process waste streams as the fuel for its systems. The Company's BOT (Build-Operate-Transfer) model enables it to lease its systems to large material processing customers in China and offer a self-financing system that reduces the customer's energy cost, while providing China Recycling lucrative income streams. The types of systems currently offered by CREG include Pressure-to-Energy (TRT), Heat-to-Energy (CHPG), and Gas-to-Energy (WGPG and CCPP) Systems.

BOT Model (Sales-Type Lease Accounting)

China Recycling's Build-Operate-Transfer (BOT) model entails financing and building one of the aforementioned systems, installing and operating the system at the customers site (during which time it collects guaranteed energy-savings-based lease payments and either operates the system on its own or outsources operation) and finally transfers the system to the customer at no cost upon the conclusion of the lease. The leases range from 5 to 20 years and payments are based on the sale of energy generated by its systems at below market cost to the lessee. The payments are guaranteed in advance, based on a minimum operation schedule agreed upon by the two parties, and backed by collateral assets and third party performance guarantees; payback is generally three to four years. To reduce risk the Company leases across industries and to larger manufacturers or state-owned enterprises. Operation in excess of the minimum enables China Recycling to receive additional payments from the excess energy generated and sold.

Due to the nature of the leases, the Company accounts for these transactions as Sales-Type Leases. As a result, China Recycling books its revenue as Product Sales and Sales-Type Lease Interest Income. Product Sales are recorded in the quarter the system is installed and defined as the present value of the monthly net lease streams. This amount is then added to the Balance Sheet as Investment in Sales-Type Leases and reduced over the life of the lease as lease payments are received. Sales-Type Lease Interest Income is recorded on a quarterly basis by multiplying the interest rate on each project by the then outstanding obligation (which starts as the PV of lease payments and is reduced by the monthly amortization amount, or the difference between the monthly net lease payment and the Sales-Type Lease Interest Income). In the past, the Company has recorded Rental Income from two separate one-year operating leases with two customers. These agreements were not renewed and we do not expect any revenue in the future outside of that generated from its BOT model.

Systems Offered

Pressure-to-Energy Systems—these systems remove dust particles from the gas stream then use the change in pressure created from the blast furnace gas stream expanding to atmospheric pressure into mechanical energy, which powers turbine units to generate electricity. The Company offers Blast Furnace Top Gas Recovery Turbine (TRT) Systems in this segment, which can be used in the iron, steel, petrochemical, chemical and non-ferrous metals industries. Management believes its systems are superior to those of its competitors due to the inclusion of advanced dry-type de-dusting technology, joined turbine systems, and automatic power grid synchronization. To date, China Recycling has installed two TRT systems and has another under construction.

Heat-to-Energy Systems—these systems use medium and low-temperature waste steam emitted from industrial production processes as a source of fuel to generate electricity. The Company offers Cement waste Heat Power Generation (CHPG) Systems in this segment, which are built on New Suspension Pre-heater Dry Process cement clinker production lines and capture and use the residual cement heat. CHPG Systems can be used in the iron, steel, building materials, petrochemicals, chemicals and non-ferrous metal industries. To date, China Recycling has installed two CHPG systems.

Gas-to-Energy Systems—these systems use the flammable waste gases emitted from industrial production processes to power gas-fired boiler generators, internal combustion generators or gas-steam combined cycle power generators. The Company offers Waste Gas Power Generation (WGPG) Systems and Combined Cycle Power Plant (CCPP) Systems in this segment. WGPG uses waste gas streams while CCPP uses a combination of waste gas, heat and pressure. These systems can be used in the iron, steel, building materials, petrochemicals, chemicals and non-ferrous metal industries. To date, China Recycling has installed one CCPP system and has three WGPG systems under construction.

COMPANY OVERVIEW (continued)R&D

The Company's research and development activities are conducted by a team of 30 engineers, the majority of whom have over 15 years experience, at its self-owned Xing Iron & Steel design institute. This R&D center provides consulting, engineering and general contracting services on each type of system it offers. China Recycling owns two patents, has six authorized-to-use patents and is applying for 10 additional patents related to its Erdos WGPG project. The Company also works with design institutes and companies in the steel, construction material, metallurgy, chemical and petrochemical sectors to help improve its products and services.

Erdos TCH Joint Venture

In April 2009, the Company formed a JV with Erdos Metallurgy to recycle waste heat from Erdos' metal refining plants to generate steam and electricity, which will be sold back to Erdos. The JV will install a number of systems at Erdos' facility, which will likely be done in seven phases with the first scheduled for completion in Q4:09. The JV will generate RMB 265 million in payments per year for 20 years and cost roughly RMB 500 million.

The JV will be funded by Erdos contributing land, water, waste heat and 10% of the capital and TCH contributing the remaining 90% of investment capital (RMB 60 million of the expected RMB 500 million has already been contributed). TCH will receive 80% of the profits until it has a complete return on its initial investment, after which TCH will receive 60% of the profits and Erdos 40%. At the end of the 20-year JV, TCH will transfer its equity to Erdos at no cost.

Carlyle

Carlyle Asia Growth Partners (CAGP) became involved in China Recycling in November of 2007, when it purchased \$5 million in 10% convertible notes, convertible at \$1.23 per share. Since then CAGP had this note repaid, purchased \$10 million in common stock at \$1.23 per share, purchased a three-year, \$5 million 5% convertible note convertible at a floating price based on 2009 Net Profit, and purchased a three year, \$3 million 8% convertible note convertible at \$0.80 (due 04/29/12). CAGP currently holds roughly 16.72 million shares and share equivalents, comprised of 8.13 million common shares and 8.59 million convertible share equivalents, based on a \$1.00 per share conversion rate for its \$5 million note. One of the Company's Directors, Nicholas Shao, is employed by CAGP.

MARKET OVERVIEW

China Recycling's products are sold to large customers in China that are involved in high energy-consuming businesses producing iron, steel and cement, among others. The main drivers of demand for its systems are revenue generation from the sale of climate emissions reduction (CER) credits from the pollution reduction and cost savings from the purchase of lower priced energy generated from CREG's onsite systems. The estimated cost per kilowatt-hour (kWh) of energy generated through its systems is less than RMB 0.10, below the cost of all other forms of energy generation. The low cost per kWh enable the Company to structure its leases in a way that the excess waste used to generate electricity by CREG's systems can be sold back to the lessee at below market rates (RMB 0.40/kWh versus RMB 0.50/kWh), but still be lucrative enough to pay the Company attractive lease rates.

Competition in this space is highly fragmented, with the majority of the competition coming from potential customers who fund and manage the projects on their own. The local competition is comprised primarily of engineering groups and contractors who can offer part of the entire project, as opposed to China Recycling who can offer a complete, self-financing system with no capital expenditure. The Company believes there are no firms in China that offer a similar BOT solution or have the technical knowledge and experience it does. It also believes its services offer a better value, in terms of quality and cost, relative to what a potential customer could achieve doing the project internally.

TRT Market

China currently produces over one-third of the world's steel, with this figure growing over 20% annually for the last five years. China's Iron & Steel Association issued a report in 2007 estimating 200 TRT systems will be installed in China from 2008 to 2010 at a total cost of RMB 5 billion. The basis for the estimate is the government's mandate that all new and existing blast furnaces must be equipped with a TRT system. Management estimates only 50% of existing blast furnaces are equipped with TRT systems, which, when combined with new blast furnace installations, will drive demand for roughly 450 TRT systems, or approximately \$1.5 billion in annual lease payments, over the next three to five years. Due to the high return on investment on TRT systems, the Company faces increased competition from potential customers internalizing the projects and therefore must offer its services at comparable prices.

CHPG Market

China produces more than 45% of the world's cement, with total investment in the Chinese cement industry reaching RMB 105 billion in 2008, 65% of which was spent on building NSP clinker production lines (the type of lines CHPG systems are used on). Securities News of China estimates the percent of NSP clinker production lines will continue to rise as new plants are built, with 70% of new builds in 2009 expected to be this variety. The 11th Five-Year Plan in China (2006-2010) called for a 20% reduction in energy usage per unit of GDP, and called for 30 CHPG systems to be installed annually on cement producing lines with an output of greater than 2,000 tons per day. The demand for cement should continue to rise, due in part to the November 2008 stimulus package, which included roughly \$200 million for new roads and ports. Management believes roughly 400 CHPG systems will need to be added over the next three to five years.

WGPG Market

WGPG systems can be widely used, from smelters to oil refineries to natural gas and coal power plants. The Company estimates the annual potential market for recycled energy systems in China at 22.5 billion kWh, or nearly \$1.5 billion in annual revenue potential. Management believes roughly 300 WGPG systems will need to be added over the next three years.

CCPP Market

Metallurgical manufacturers are the biggest energy users, consuming 13% to 15% of electricity in China, with iron-smelters accounting for 40% of this figure. The use of a CCPP system can reduce energy consumption by 30% to 45%, as well as reduce pollution. Management believes roughly 300 CCPP systems will need to be added over the next three years. There are currently only four CCPP system producers in China because of the high technology requirements, which should position China Recycling for additional contracts.

1 USD = 6.83 RMB, as of 11/23/09

PROJECT LIST

Customer	Tech.	Signed	Started	Capacity	Total Cost (RMB)	Annual Payment (RMB)	Term (years)	Total Value (RMB)	Total Value (USD)
Zhangzhi Iron & Steel	TRT	02/07	08/07	6.3 MW	25.0 M	13.2 M	13	171.6 M	22.1 M
Xingtai Iron & Steel	TRT	02/07	08/07	5.0 MW	28.0 M	10.8 M	5	54.0 M	7.2 M
Shengwei Tongchuan	CHPG	11/07	01/09	7.24 MW	43.0 M	25.2 M	5	126.0 M	18.4 M
Shengwei Jinyang	CHPG	11/07	07/09	9.0 MW	50.0 M	27.6 M	5	138.0 M	20.2 M
Shanxi Ferroalloy Coke	CCPP	N/A	10/09	36.0 MW	96.8 M	38.9 M	10	389.0 M	57.0 M
Completed				63.54 MW	242.8 M			878.6 M	124.9 M
Erdos (Phase I)	WGPG	04/09	Q4:09e	18.0 MW	60.0 M	20.0 M	20	400.0 M	58.6 M
Zhonggang Binhai	TRT	09/08	Q1:10e	7.0 MW	55.0 M	21.0 M	9	189.0 M	27.7 M
Erdos (Phase II)	WGPG	04/09	Q3:10e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Erdos (Phase III)	WGPG	04/09	Q4:10e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Under Construction				59.0 MW	235.0 M			1389.0 Me	203.4 M
Erdos (Phase IV)	WGPG	04/09	Q1:11e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Erdos (Phase V)	WGPG	04/09	Q2:11e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Erdos (Phase VI)	WGPG	04/09	Q3:11e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Erdos (Phase VII)	WGPG	04/09	Q4:11e	17.0 MW e	60.0 M e	20.0 M e	20	400.0 M e	58.6 M
Shanxi Xinjinshan Specialty Steel 1	TRT	MOU	N/A	2.5 MW	19.0 M	N/A	20	N/A	N/A
Shanxi Xinjinshan Specialty Steel 2	TRT	MOU	N/A	2.5 MW	37.0 M	N/A	20	N/A	N/A
Zhongxia Cement	CHPG	MOU	N/A	3.0 MW	22.0 M	N/A	6	N/A	N/A
Ningxia Baota Petrochem	CCPP	MOU	N/A	8.5 MW	45.0 M	N/A	5	N/A	N/A
Kunming Iron & Steel	CCPP	MOU	N/A	48.0 MW	400.0 M	N/A	15	N/A	N/A
Yingye Fuel Gas	CCPP	MOU	N/A	48.0 MW	250.0 M	N/A	10	N/A	N/A
Total MOU				180.5 MW	1,013.0 M				

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MANAGEMENT TEAM & DIRECTORS

	Age	Position(s)	Compensation ('09)	Shares	Options / Warrants
<i>Ku Guohua</i>	47	<i>CEO, Chairman</i>	\$ 27,880	18,706,943	0
Mr. Ku has been CEO and on the board since December 2008 and Chairman since April 2009. Prior to joining China Recycling in 2007, Mr. Ku served as senior engineer for Yingfeng Technology after spending 15 years with Shan Xi Blast Air Blower Co.					
<i>Peng Xinyu</i>	40	<i>CFO</i>	N/A	0	0
Mr. Peng has been CFO since August 2008, prior to which he served as VP of Tavistock Group Asia, CFO and Director of MOD3 Cabinets & Home LLC, and CFO of Creative Hospitality Concepts.					
<i>Wu Zhingang</i>		<i>VP Finance</i>	N/A	18,000	120,000
Mr. Wu became VP of Finance in October 2007 after spending over a decade in the securities industry with Guotai-Junan Securities and Zhongzheng Investment.					
<i>Lanwei Li</i>	27	<i>VP Business Dev., Director</i>	N/A	27,000	18,000
Mr. Li was appointed a Director in April 2009. Mr. Li has been with the Company since March 2005 and currently serves as VP of Business Development, overseeing Business Development, Investment Management and Strategy Development.					
<i>Nicolas Shao</i>	37	<i>Director</i>	0	0	0
Mr. Shao has been a Director since June 2008. Mr. Shao is a VP of Carlyle Asia Growth and has worked for Credit Suisse First Boston and Morgan Stanley.					
<i>Sean Shao</i>		<i>Director</i>	\$ 24,000	0	50,000
Mr. Shao has been a Director since November 2009 and serves as a Director of Agria Corp. (NYSE: GRO) and China Biologic Products (OTC: CBPO) after previously serving as CFO of Trina Solar (NYSE: TSL) and ChinaEdu Corporation (Nasdaq: CEDU).					
<i>Julian Ha</i>		<i>Director</i>	\$ 24,000	0	40,000
Mr. Ha has been a Director since November 2009 and is a member of Heidrick & Struggles, an executive search firm. Previously, Mr. Ha was a Director of the Corporate Finance Group of Evolution Securities China, a London-based investment bank.					
<i>Timothy Driscoll</i>		<i>Director</i>	\$ 24,000	0	40,000
Mr. Driscoll has been a Director since November 2009 and is the CEO of Proteus Industries, President of MTD Ventures and President and CEO of Driscoll Management Services.					

RISKS

The Chinese Economy

A slowdown in the growth of the economy could dampen demand for the products manufactured in its lessee's facilities, such as steel and cement, which would reduce demand for CREG's systems.

Government Stimulus

The Company is indirectly dependent on the Chinese government's stimulus investments in infrastructure. Should it stop investing in infrastructure, as has been discussed, China Recycling may find it difficult to enter into contracts for guaranteed minimum lease payments at the same rate it currently enjoys.

Quarterly Results Volatility

Due to the nature of the Company's revenue recognition it will report lumpy sales results based on the timing of systems put into operation. While the figures are important and show the start of new leases, the Sales-Type Lease Interest Income line may be the better figure to track the Company's financial performance.

Competition

Although the Company enjoys relatively little competition and high returns on investment, it should be expected that competitors will quickly enter the market and drive down margins.

Potential Dilution

China Recycling will need to obtain additional funds to continue working through its project pipeline. While we have estimated this will be funded by bank debt (\$35 million spread over 2010 and 2011), the Company could choose to issue new equity.

Large Shareholders

CEO Ku Guohua owns 18.71 million and Carlyle Asia Growth Partners owns 16.72 million shares and share equivalents, together accounting for 70% of the total share and share equivalents outstanding.

Liquidity

The stock is thinly traded, which may make it difficult to take a position.

VALUATION

We are initiating coverage of China Recycling Energy Corp. with a Buy rating and \$4.50 target price. Our target price is based on a P/E multiple of 16 times our 2010 diluted EPS estimate of \$0.28. We believe this multiple is fair given the long-term visibility provided by its leases, but would like to see continued success in signing and completing new contracts and how the Company funds its capital needs in 2010 and beyond. That said, we believe China Recycling has a great deal of upside given the vast market in China seeking energy savings and pollution control.

ESTIMATED INCOME STATEMENT

	2008A	Q1:09A	Q2:09A	Q3:09A	Q4:09e	2009e	Q1:10e	Q2:10e	Q3:10e	Q4:10e	2010e	Q1:11e	Q2:11e	Q3:11e	Q4:11e	2011e
Sales of Products	8,049	-	9,513	18,426	6,105	34,044	15,110	-	12,209	12,209	39,529	12,209	12,209	12,209	12,209	48,837
Rental Income	11,169	4,323	1,624	-	-	5,947	-	-	-	-	-	-	-	-	-	-
Total Revenue	19,218	4,323	11,137	18,426	6,105	39,991	15,110	-	12,209	12,209	39,529	12,209	12,209	12,209	12,209	48,837
Cost of Products	6,192	-	7,318	14,180	4,392	25,890	12,445	-	8,785	8,785	30,015	8,785	8,785	8,785	8,785	35,139
Rental Expense	7,810	3,022	1,127	-	-	4,149	-	-	-	-	-	-	-	-	-	-
Total Cost of Sales	14,002	3,022	8,445	14,180	4,392	30,039	12,445	-	8,785	8,785	30,015	8,785	8,785	8,785	8,785	35,139
Product GP	1,857	-	2,195	4,246	1,712	8,153	2,665	-	3,425	3,425	9,514	3,425	3,425	3,425	3,425	13,698
Rental GP	3,359	1,301	497	-	-	1,798	-	-	-	-	-	-	-	-	-	-
Gross Profit	5,216	1,301	2,692	4,246	1,712	9,951	2,665	-	3,425	3,425	9,514	3,425	3,425	3,425	3,425	13,698
Sales-Type Lease Int. Inc.	2,285	1,199	1,135	1,784	2,793	6,911	3,301	3,846	3,746	4,324	15,219	4,863	5,398	5,927	6,451	22,638
SG&A	3,354	796	560	1,375	1,416	4,147	1,459	1,502	1,540	1,586	6,087	1,634	1,683	1,725	1,777	6,818
Total Operating Income	4,147	1,704	3,267	4,655	3,089	12,715	4,508	2,344	5,631	6,163	18,646	6,653	7,139	7,627	8,099	29,518
EBITDA	5,602	2,100	3,328	5,350	3,096	13,874	4,515	2,351	5,638	6,170	18,674	6,660	7,146	7,634	8,106	29,546
Interest Expense, Net	(4,760)	(58)	(376)	142	(206)	(498)	(208)	(277)	(378)	(480)	(1,343)	(548)	(617)	(619)	(688)	(2,472)
Other Income	109	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Expense	(1)	(2)	(1)	(66)	-	(69)	-	-	-	-	-	-	-	-	-	-
Exchange Loss	(82)	-	(2)	-	-	(2)	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	(587)	1,644	2,888	4,731	2,882	12,145	4,300	2,067	5,253	5,683	17,302	6,105	6,523	7,008	7,411	27,047
Income Tax Expense	(1,633)	(568)	343	(942)	(432)	(1,599)	(645)	(310)	(788)	(852)	(2,595)	(916)	(978)	(1,051)	(1,112)	(4,057)
Net Income	(2,220)	1,076	3,231	3,789	2,450	10,546	3,655	1,757	4,465	4,830	14,707	5,189	5,544	5,957	6,299	22,990
Minority Interest	-	-	(3)	(8)	291	280	400	103	685	794	1,983	897	1,000	1,103	1,206	4,207
Net Income	(2,220)	1,076	3,234	3,797	2,159	10,266	3,255	1,654	3,779	4,036	12,724	4,292	4,544	4,853	5,093	18,783
Basic EPS	(0.07)	0.03	0.08	0.10	0.06	0.27	0.08	0.04	0.10	0.10	0.33	0.11	0.12	0.13	0.13	0.48
Basic S/O	32,096	36,425	38,261	38,778	38,778	38,061	38,778	38,778	38,778	38,778	38,778	38,778	38,778	38,778	38,778	38,778
Diluted Net Income	(2,051)	1,139	3,338	3,924	2,288	10,688	3,386	1,787	3,914	4,174	13,260	4,432	4,686	4,997	5,239	19,354
Diluted EPS	(0.04)	0.02	0.07	0.08	0.05	0.23	0.07	0.04	0.08	0.09	0.28	0.09	0.10	0.10	0.11	0.40
Diluted S/O	49,702	46,761	44,600	47,901	46,487	46,437	47,180	47,676	48,047	48,336	47,810	48,567	48,756	48,914	49,047	48,821
2008A	Q1:09A	Q2:09A	Q3:09A	Q4:09e	2009e	Q1:10e	Q2:10e	Q3:10e	Q4:10e	2010e	Q1:11e	Q2:11e	Q3:11e	Q4:11e	2011e	
Product GM	23.1%	N/A	23.1%	23.0%	28.0%	23.9%	17.6%	N/A	28.0%	28.0%	24.1%	28.0%	28.0%	28.0%	28.0%	28.0%
Rental GM	30.1%	30.1%	30.6%	N/A	N/A	30.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross Margin	27.1%	30.1%	24.2%	23.0%	28.0%	24.9%	17.6%	N/A	28.0%	28.0%	24.1%	28.0%	28.0%	28.0%	28.0%	28.0%
Operating Margin	21.6%	39.4%	29.3%	25.3%	50.6%	31.8%	29.8%	N/A	46.1%	50.5%	47.2%	54.5%	58.5%	62.5%	66.3%	60.4%
EBITDA Margin	29.1%	48.6%	29.9%	29.0%	50.7%	34.7%	29.9%	N/A	46.2%	50.5%	47.2%	54.6%	58.5%	62.5%	66.4%	60.5%
Net Margin	-10.7%	26.3%	30.0%	21.3%	37.5%	26.7%	22.4%	N/A	32.1%	34.2%	33.5%	36.3%	38.4%	40.9%	42.9%	39.6%

Source: Documents filed with the SEC by China Recycling Energy Corp. and Gar Wood Securities estimates

HISTORIC INCOME STATEMENT

	2007	2008
Sales of Products	9,302	8,049
Rental Income	-	11,169
Total Revenue	9,302	19,218
Cost of Products	7,033	6,192
Rental Expense	-	7,810
Total Cost of Sales	7,033	14,002
Product GP	2,269	1,857
Rental GP	-	3,359
Gross Profit	2,269	5,216
Sales-Type Lease Int. Inc.	1,016	2,285
SG&A	543	3,354
Total Operating Income	2,742	4,147
Interest Expense, Net	(377)	(4,760)
Other Income	-	109
Other Expense	(49)	(1)
Exchange Loss	-	(82)
Income Before Taxes	2,316	(587)
Income Tax Expense	(467)	(1,633)
Net Income - Continuing	1,849	(2,220)
Income - Disc. Ops.	29	-
Minority Interest	-	-
Net Income	1,878	(2,220)
Basic EPS - Continuing	0.10	(0.07)
Basic S/O	18,160	32,096
Diluted EPS - Continuing	0.10	(0.04)
Diluted S/O	18,856	49,702

Source: Documents filed with the SEC by China Recycling Energy Corp.

HISTORIC BALANCE SHEET

	2007	2008	Q3:09
Cash & Equivalents	1,634	7,267	5,683
Restricted Cash	-	-	4,395
Invest. Sales-Type Lease, Net	1,082	1,971	4,212
Int. Rec. Sales-Type Lease	144	82	462
Advance to Suppliers	2,468	-	-
Prepaid Expense	-	3,849	-
Accounts Receivable	-	-	-
Other Receivables	33	103	248
Inventory	9,870	10,535	-
Deferred Tax Asset	-	-	-
Total Current Assets	15,231	23,807	15,000
Invest. Sales-Type Lease, Net	7,934	14,838	39,013
Advance for Equipment	-	2,643	-
Property & Equip, Net	-	95	91
Construction in Progress	-	3,731	9,433
Intangible Assets, Net	6	4	-
Total Assets	23,171	45,118	63,537
Accounts Payable	2,298	1,187	2,036
Bank Loan Payable	-	-	2,929
Notes Payable	-	-	1,466
Unearned Revenues	-	658	-
Tax Payable	192	1,314	221
Accrued Liabilities & Payables	2,566	3,529	2,978
Advance from Management	72	-	-
Advance from Shareholder	-	-	-
Stock Option Liability	-	-	-
Interest Payable	-	-	-
Converts, Net of Disc.	378	5,000	8,000
Total Current Liabilities	5,506	11,688	17,630
Deferred Tax Liability	342	823	1,732
Accrued Int. on Converts	-	169	229
Minority Interests	15	16	253
Common Stock	25	37	39
Paid-in Capital	19,071	33,948	37,075
Unamort. Comp. Expense	-	-	-
Statutory Reserve	832	1,319	2,349
Accum. Other Comp. Income	1,718	3,583	3,617
Retained Earnings	(4,338)	(6,465)	613
Total Stockholders Equity	17,308	32,422	43,693
Total Liabilities & Equity	23,171	45,118	63,537
S/O	25,015	36,425	38,778

Source: Documents filed with the SEC by China Recycling Energy Corp.

HISTORIC STATEMENT OF CASH FLOWS

	2007	2008
Net Income	1,878	(2,220)
Depreciation & Amortization	-	18
Amort of Convert Discount	315	4,685
Stock Option Expense	172	1,437
Accrued Int on Convert	63	106
Change in Deferred Tax	-	823
Minority Interest	15	-
Accounts Receivable	-	-
Investment Sales-Type Lease	-	-
Int. Rec. Sales-Type Lease	(144)	62
Prepaid Expenses	-	(3,797)
Other Receivables	212	(67)
Inventory	-	-
Advances to Suppliers	(1,591)	-
Accounts Payable	2,204	(1,246)
Unearned Revenue	-	648
Advance from Customers	(180)	-
Tax Payable	523	707
Accrued Liab. & Payables	1,530	802
Due to Related		
Cash From Operating Activities	4,997	1,958
Restricted Cash	-	-
Investment Sales-Type Lease	(8,641)	(7,063)
Acq. Prop & Equip	-	(115)
Construction in Progress	-	(3,718)
Cash From Investing Activities	(8,641)	(10,896)
Issuance - Common Stock	-	9,032
Convertible Notes	5,000	5,000
Repayment to Management	-	(75)
Bank Loan Payable	-	-
Notes Payable	-	-
Advance from Shareholder	69	-
Cash From Financing Activities	5,069	13,957
Foreign Currency Exchange	(43)	614
Net Change in Cash	1,382	5,633
Cash, Beginning	252	1,634
Cash, Ending	1,634	7,267

Source: Documents filed with the SEC by China Recycling Energy Corp.

DISCLOSURES**Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	7	87%	0	00%
HOLD	1	13%	0	00%
SELL	0	00%	0	00%
NO RATING	0	00%	0	00%

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<u>Company</u>	<u>Disclosures</u>
China Recycling Energy Corp.	6

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