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## **China Recycling Energy Corp. Completes Full Year 2008 and Q1 2009 Non-Cash Restatements and Reaffirms Full Year 2009 Guidance**

### **PR Newswire**

**XI'AN, China, Sept. 29**

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#### Highlights

- Company restates financial statements for the fiscal year 2008 and Q1 2009 with a completely clean opinion from our auditor.
- Restatement pertains to non-cash charges relating to reclassification of deferred taxes for sales type leases, rescission of a beneficial conversion feature relating to a convertible note, and modification of employee options. Restatement has no impact on statement of cash flows except the reclassification within the operating activities.
- Additional financial controls adopted on financial reporting.
- Company realized \$35.5 million total revenue with \$6.8 million net incomes during the trailing four quarters.
- Management reaffirms 2009 full year Net Income guidance of \$8 million.

China Recycling Energy Corp. (OTC Bulletin Board: CREG) ('CREG' or 'the Company'), a fast-growing industrial waste-to-energy solutions provider in China, today announced that the Company has completed its restatements for its financial statements for fiscal year 2008 and the first quarter of 2009, to correct the Company's accounting for non-cash charges relating to reclassification of deferred taxes for sales type leases, rescission of a beneficial conversion feature relating to a convertible note, and modification of employee options. The restatement items are non-cash charges and have no impact on fiscal year 2008 cash or cash flows from operations. The restatement has no impact on the March 31, 2009 Income Statement, Cash flow Statement or cash balance.

On August 25, 2009, the Company announced that it had identified historical non-cash US GAAP accounting issues and that the Company's previously issued audited consolidated financial statements as of and for the fiscal years ended December 31, 2008, and unaudited interim consolidated financial statements as of and for the quarterly periods ended March 31, 2009, September 30, 2008, and June 30, 2008 should no longer be relied upon. The Company undertook a review to determine the total amount of the misstatements due to the accounting issues and the periods in which they occurred.

"CREG is committed to the highest standards of business conduct, compliance, financial reporting and internal controls," said Xinyu Peng, CFO. "When we became aware of these matters, the Company immediately carried out an assessment of our internal controls over financial reporting and the effectiveness of the design and operation of our disclosure controls and procedures."

While the correction of the misstatements significantly reduced the Company's net income, earnings per share and EBITDA for each of the affected periods, it had no effect on the Company's total assets, total liabilities, total stockholders' equity, cash flows from operations, or adjusted EBITDA. The current estimated impact of the restatement is below.

#### Financial Statement Restatement

##### Fiscal year 2008 restatement

The financial statements for the balance sheet date at December 31, 2008 and for the year ended December 31, 2008 were restated to reflect the following:

1. Reclassification of current tax payable to deferred tax liability of \$823,407 on sales-type leases as the Company did not separately record the deferred tax liability.
2. The Company initially recorded the rescission of the \$5,000,000 convertible note and cross receipt transaction as the settlement of the note and the reacquisition of the beneficial conversion feature

("BCF"). The Company's management has now concluded that in substance the transaction resulted in the conversion of the first \$5,000,000 note into common stock and should have been accounted for as such. Accordingly, in accordance with EITF 00-27, the remaining BCF of \$3,472,603 at the date of conversion has been expensed.

3. A change in the accounting for the options forfeited and cancelled on June 25, 2008 and the subsequent reissuance on August 4, 2008. The Company originally recorded the employee stock options expense for those options that had vested prior to being forfeited and cancelled on June 25, 2008. The Company's management has now concluded that the options subsequently issued on August 4, 2008 should be accounted as a modification of the options cancelled and forfeited on June 25, 2008. Accordingly, the Company recorded the difference between the fair values of the options before and after the modification date as incremental cost and amortized such cost including the unamortized grant date fair value over the new vesting period.

These restatement adjustments did not have an impact to the statement of cash flows except that certain items within the operating activities have been reclassified.

The following table presents the effects of the restatement adjustment on the accompanying consolidated statement of operations for the year ended December 31, 2008:

Consolidated Statement of Operations and Comprehensive Loss

	As Previously Reported	Restated	Net Adjustment
General and administrative expenses	\$ 2,773,702	\$ 3,354,028	\$ 580,326
Total operating expenses	\$ 2,773,702	\$ 3,354,028	\$ 580,326
Interest expense	\$ (1,314,689)	\$ (4,787,292)	\$ (3,472,603)
Total non-operating expenses	\$ (1,261,705)	\$ (4,734,308)	\$ (3,472,603)
(Loss) income before income taxes	\$ 3,466,102	\$ (586,827)	\$ (4,052,929)
Net (Loss) income	\$ 1,833,265	\$ (2,219,664)	\$ (4,052,929)
Comprehensive (loss) income	\$ 3,697,592	\$ (355,337)	\$ (4,052,929)
Net (Loss) income per common share - basic	\$ 0.06	\$ (0.07)	\$ (0.13)
Net (Loss) income per common share - diluted	\$ 0.03	\$ (0.07)	\$ (0.10)

The following table presents the effects of the restatement adjustment on the accompanying consolidated balance sheet for the date at December 31, 2008:

Consolidated Balance Sheet at December 31, 2008

	As Previously Reported	Restated	Net Adjustment
Tax payable	\$ 2,137,356	\$ 1,313,949	\$ (823,407)
Deferred tax liability, net	\$ --	\$ 823,407	\$ 823,407

Total liabilities	\$ 12,679,694	\$ 12,679,694	\$ --
Additional paid in capital	\$ 30,475,360	\$ 34,528,289	\$ 4,052,929
Accumulated deficit	\$ (2,991,995)	\$ (7,044,924)	\$ (4,052,929)
Total stockholders' equity	\$ 32,421,663	\$ 32,421,663	\$ --

#### Q1 2009 restatement

The financial statement for the balance sheet date at March 31, 2009 was restated to reflect the following:

1. Reclassification of current tax payable to deferred tax of liability of \$258,659 on sales-type leases as the Company did not separately record the deferred tax liability.
2. The Company initially recorded the rescission of the first \$5,000,000 convertible note and cross receipt transactions as the settlement of the note and the reacquisition of the BCF. The Company's management has now concluded that in substance the transaction resulted in the conversion of the first \$5,000,000 note into common stock and should have been accounted for as such. Accordingly, in accordance with EITF 00-27, the remaining BCF of \$3,472,603 at the date of conversion has been expensed and recorded as an increase in accumulated deficit at March 31, 2009.
3. At March 31, 2009, the Company treated the modification to options under variable accounting, and accordingly, recorded the fair value of the options as a liability. During the quarter ended June 30, 2009, management concluded that the options should be classified as equity; accordingly, the options liability at March 31, 2009 was reclassified to additional paid in capital. The reclassification did not have any material impact to the results of operations for the three months ended March 31, 2009.

All the restatement adjustments did not have an impact to the statement of cash flows except that certain items within the operating activities have been reclassified.

The following table presents the effects of the restatement adjustment on the accompanying consolidated balance sheet for the date at March 31, 2009:

#### Consolidated Balance Sheet at March 31, 2009

	As Previously Reported	Restated	Net Adjustment
Tax payable	\$ 1,058,328	\$ 1,316,987	\$ 258,659
Option liability	\$ 827,965	\$ --	\$ (827,965)
Deferred tax liability, net	\$ 931,729	\$ 673,070	\$ (258,659)
Total liabilities	\$ 13,475,603	\$ 12,647,638	\$ (827,965)
Additional paid in capital	\$ 30,251,597	\$ 34,917,665	\$ 4,666,068
Unamortized compensation expense, net	\$ (1,454,954)	\$ --	\$ 1,454,954
Accumulated deficit	\$ (846,451)	\$ (6,139,508)	\$ (5,293,057)
Total stockholders' equity	\$ 33,029,028	\$ 33,856,993	\$ 827,965

#### Additional Internal Control over financial reporting

In connection with the restatement of our financial statements, management reevaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal control over financial reporting. To address our concerns regarding the accounting issues, the Company has retained a consultant to evaluate our internal control over financial reporting and to assist us in making improvements to the quality of our controls, policies and procedures. The Company also intends to form an Audit Committee of independent directors during the 2009 fiscal year to oversee the audit and internal audit process. In addition, we are improving supervision, education, and training of our accounting staff and continue to search for more qualified financial personnel with experience with U.S. GAAP and U.S. public company reporting and compliance obligations.

#### Trailing 12-month's Income Statements

While the correction of the accounting issues significantly reduced the Company's net income and earnings per share for fiscal year 2008, the restated items were non-cash in nature and the restatement had no impact on fiscal year 2008 cash or cash flows from operations and no impact on the March 31, 2009 Income Statement, Cash flow Statement or cash balance.

The restatement has a limited impact on the trailing four quarters' income statements. During the trailing four quarters, the Company realized total sales of \$35.5 million with net income of \$6.8 million while the Company's earnings before interest & income tax (E.B.I.T.) reached \$ 8.8 million.

Summary of trailing four-quarter income statements, reflecting the impact of the restatements

Quarter Ending (In Thousand Dollars)

	June 30, 2009	March 31, 2009	Dec. 31, 2008	Sept. 30, 2008	4-Quarter Total	%
Total Revenue	12,272	5,521	12,910	4,837	35,540	100.0%
Sales & Rental Income	11,137	4,323	12,341	4,260	32,061	90.2%
Interest Income from sales-type leasing	1,135	1,199	569	577	3,479	9.8%
Cost of Revenue	8,445	3,021	9,191	2,977	23,635	66.5%
Gross Profit	3,827	2,500	3,719	1,860	11,905	33.5%
Operating Expenses General & Administrative	560	795	810	1,040	3,206	9.0%
Expenses Income from Operations	3,267	1,704	2,908	820	8,699	24.5%
Other Income (Expenses) net	(3)	3	136	(3)	133	0.3%
E.B.I.T.	3,264	1,707	3,044	817	8,832	24.8%
Interest Expenses	376	63	81	57	577	1.6%
Income Before Taxes	2,888	1,644	2,963	760	8,255	23.2%
Income Tax Expenses	(343)	568	836	428	1,489	4.2%
Minority Interests	3				3	
Net Income	3,234	1,076	2,127	332	6,769	19.0%

#### Business Outlook

CREG reaffirms its expectations for 2009 revenue to be in the range of \$33 million to \$36 million, with net income, excluding non-cash charges, of approximately \$8 million. These targets are based on the Company's current views on the operating and market conditions, which are subject to change.

#### About China Recycling Energy Corp.

China Recycling Energy Corp. ('CREG' or 'the Company') is based in Xi'an, China and provides environmentally friendly waste-to-energy technologies to recycle industrial byproducts for steel mills, cement factories and coke plants in China. Byproducts include heat, steam, pressure, and exhaust to

generate large amounts of lower-cost electricity and reduce the need for outside electrical sources. The Chinese government has adopted policies to encourage the use of recycling technologies to optimize resource allocation and reduce pollution. Currently, recycled energy represents only an estimated 1% of total energy consumption and this renewable energy resource is viewed as a growth market due to intensified environmental concerns and rising energy costs as the Chinese economy continues to expand. The management and engineering teams have over 20 years of experience in industrial energy recovery in China.

For more information about CREG, please visit <http://www.creg-cn.com> .

#### Safe Harbor Statement

This press release may contain certain 'forward-looking statements' relating to the business of China Recycling Energy Corp. and its subsidiary companies. All statements, other than statements of historical fact included herein are 'forward-looking statements.' These forward-looking statements are often identified by the use of forward-looking terminology such as 'believes,' 'expects' or similar expressions, involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in the Company's periodic reports that are filed with the Securities and Exchange Commission and available on the SEC's website at <http://www.sec.gov> . All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these factors. Other than as required under the securities laws, the Company does not assume a duty to update these forward-looking statements.

For more information, please contact:

In China:

Mr. Leo Wu  
Investor Relations  
China Recycling Energy Corp.  
Email: [tch@creg-cn.com](mailto:tch@creg-cn.com)

SOURCE China Recycling Energy Corp.

**Website:** <http://www.creg-cn.com>

**Contact:** In China: Mr. Leo Wu, Investor Relations of China Recycling Energy Corp., [tch@creg-cn.com](mailto:tch@creg-cn.com)

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