CHINA RECYCLING ENERGY CORP
Form 10-K/A
April 08, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

**(Amendment No. 1)**

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

For the fiscal year ended December 31, 2016

**Commission file number: 000-12536**

**China Recycling Energy Corporation**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**90-0093373**

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

**12/F, Tower A**
**Chang An International Building**
**No. 88 Nan Guan Zheng Jie**
**Xi An City, Shaan Xi Province**
**China** **710068**
(Address of principal executive offices) (Zip Code)

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

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

| Title of each class | Name of each Exchange on which registered |
|---|---|
| Common Stock, $0.001 par value | NASDAQ Capital Market |

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The aggregate market value of the common stock issued and outstanding and held by non-affiliates of the registrant, based upon the closing sales price for the common stock on the NASDAQ Capital Market on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was $18,781,047.48.

As of March 28, 2017, the registrant had 8,310,198 shares of Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the China Recycling Energy Corporation Proxy Statement regarding the 2016 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated into Part III of this Annual Report on Form 10-K.

**EXPLANATORY NOTE**

In response to a comment letter received from the Securities and Exchange Commission (the "SEC"), dated December 4, 2018, China Recycling Energy Corporation (the "Company," "we," "us" or "our") is filing this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended December 31, 2016, originally filed with the SEC on March 30, 2017 (the "Original Form 10-K") to reevaluate the leases for Erdos TCH as a result of a supplemental agreement effective on May 1, 2016, wherein Erdos TCH cancelled monthly minimum lease payments from Erdos, charged Erdos based on actual electricity sold at RMB 0.30 / Kwh, and pursuant to which we concluded that the lease payments that depend on a factor directly related to the future use of the leased property were contingent rentals. Accordingly, such lease payments were excluded from minimum lease payments in their entirety. The Company therefore wrote off the net investment receivables of these leases on May 1, 2016.

This Form 10-K/A should be read in conjunction with the Company's periodic filings made with the SEC subsequent to the filing date of the Original Form 10-K, including any amendments to those filings, as well as any Current Reports, filed on Form 8-K subsequent to the date of the Original Form 10-K. In addition, in accordance with applicable rules and regulations promulgated by the SEC, the Company's Chief Executive Officer and Chief Financial Officer are providing currently dated certifications in connection with this Form 10-K/A. The certifications are filed as Exhibits 31.3, 31.4, 32.3 and 32.4. Because this Form 10-K/A sets forth the Original Form 10-K in its entirety, it includes both items that have been changed as a result of the amended disclosures and items that are unchanged from the Original Form 10-K. Other than the revision of the disclosures as discussed above, this Form 10-K/A speaks as of the original filing date of the Original Form 10-K and has not been updated to reflect other events occurring subsequent to the original filing date. This includes forward-looking statements and all other sections of this Form 10-K/A that were not directly impacted by this amendment, which should be read in their historical context.

**CHINA RECYCLING ENERGY CORPORATION**

**FORM 10-K**

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**PART I**

When we use the terms “we,” “us,” “our” and “the Company,” we mean China Recycling Energy Corporation, a Nevada corporation, and its wholly-owned subsidiaries, Shanghai Yinghua Financial Leasing Co., Ltd. (“Yinghua”) and Sifang Holdings Co., Ltd. (“Sifang”), and Sifang’s wholly-owned subsidiaries, Huahong New Energy Technology Co., Ltd. (“Huahong”) and Shanghai TCH, Shanghai TCH’s wholly-owned subsidiaries, Xi’an TCH Energy Technology Company, Ltd. (“Xi’an TCH”), Xi’an TCH’s wholly-owned subsidiary Erdos TCH Energy Saving Development Co., Ltd. (“Erdos TCH”) and Zhongxun Energy Investment (Beijing) Co., Ltd (“Zhongxun”)and Xi’an TCH’s 90% owned subsidiary Xi’an Zhonghong New Energy Technology Co., Ltd.

**ITEM 1. BUSINESS**

**General**

We are currently engaged in the recycling energy business, providing energy savings and recycling products and services. We are a leading developer of waste energy recycling projects for industrial applications in China, and we believe we are the only developer to use a Build-Operate-Transfer (“BOT”) model to provide energy saving and recovery facilities for multiple energy intensive industries in China. Our waste energy recycling projects allow customers who use substantial amounts of electricity to recapture previously wasted pressure, heat, and gas from their manufacturing processes to generate electricity. We currently offer waste energy recycling systems to companies for use in iron and steel, nonferrous metal, cement, coal and petrochemical plants. We construct our projects at our customer’s facility and the electricity produced is used on-site by the customer. While some of our competitors offer projects targeting one or two verticals, we serve multiple verticals.

We develop fully customized projects across several verticals to better meet customer’s energy recovery needs. Our waste pressure-to-energy solution primarily consists of the Blast Furnace Top Gas Recovery Turbine Unit (“TRT”), a system that utilizes high pressure gas emitted from the blast furnace top to drive turbine units and generate electricity. Our waste heat-to-energy solution primarily consists of heat power generation projects for applications in cement, steel, coking coal, and nonferrous metal industries, which collect the residual heat from various manufacturing processes, e.g. the entrance and exit ends of the cement rotary kilns, to generate electricity. Our waste gas-to-energy solution primarily consists of the Waste Gas Power Generation system (“WGPG”) and the Combined Cycle Power Plant (the “CCPP”). A WGPG system utilizes flammable waste gas from coal mining, petroleum exploitation, refinery processing or other sources as a fuel source to generate electricity through the use of a gas turbine. A CCPP system employs more than one power generating cycle to utilize the waste gas, which not only generates electricity by burning the flammable waste gas in a gas turbine (as a WGPG) but also uses the waste heat from burning the gas to make steam to generate additional electricity via a steam turbine.

We provide a clean-technology and energy-efficient solution aimed at reducing the air pollution and energy shortage problems in China. Our projects capture industrial waste energy to produce low-cost electricity, enabling industrial manufacturers to reduce their energy costs, lower their operating costs, and extend the life of primary manufacturing equipment. In addition, our waste energy recycling projects allow our industrial customers to reduce their reliance on China's centralized national power grid, which is prone to black-outs or brown-outs or is completely inaccessible from certain remote areas. Our projects generally produce lower carbon dioxide emissions and other pollutants, and are hence more environmentally friendly than other forms of power generation.

Since 2007, we have primarily used the BOT model to serve our customers. For each project, we design, finance, construct and install the waste energy recycling projects for our customers, operate the projects for five to twenty years, and then transfer the projects to the owners. The BOT model creates a win-win solution for both our customers and us. We provide the capital expenditure financing in exchange for attractive returns on each project; our customers can focus their capital resources on their core businesses, do not need to invest additional capitals to comply with government environmental regulations, reduce noise and emissions and reduce their energy costs. We in turn efficiently recapture our costs through the stream of lease payments.

We are headquartered in China. Our principal executive offices are located at 12/F, Tower A, Chang An International Building, No. 88 Nan Guan Zheng Jie, Xi'an City, Shaanxi Province, China, and our telephone number at this location is +86-29-8769-1097.

**Company Overview and History**

The Company was incorporated on on May 8, 1980 as Boulder Brewing Company under the laws of the State of Colorado. On September 6, 2001, the Company changed its state of incorporation to the State of Nevada. In 2004, the Company changed its name from Boulder Brewing Company to China Digital Wireless, Inc. and on March 8, 2007, again changed its name from China Digital Wireless, Inc. to its current name, China Recycling Energy Corporation. The Company, through its subsidiaries, provides energy saving solutions and services, including selling and leasing energy saving systems and equipment to customers, project investment, investment management, economic information consulting, technical services, financial leasing, purchase of financial leasing assets, disposal and repair of financial leasing assets, consulting and ensuring of financial leasing transactions in the Peoples Republic of China ("PRC").

Our business is primarily conducted through our wholly-owned subsidiaries, Shanghai Yinghua Financial Leasing Co., Ltd. ("Yinghua") and Sifang Holdings Co., Ltd. ("Sifeng"), Sifeng's wholly-owned subsidiaries, Huahong New Energy Technology Co., Ltd. ("Huahong") and Shanghai TCH, Shanghai TCH's wholly-owned subsidiaries, Xi'an TCH Energy Technology Company, Ltd. ("Xi'an TCH"), Xi'an TCH's wholly-owned subsidiary Erdos TCH Energy Saving Development Co., Ltd. ("Erdos TCH") and Xi'an TCH's 90% owned subsidiary Xi'an Zhonghong New Energy Technology Co., Ltd., and Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun"). Shanghai TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, currently with registered capital of $29.80 million. Xi'an TCH was incorporated in Xi'an, Shaanxi Province under the laws of the PRC on November 8, 2007. Erdos TCH was incorporated in April 2009. Huahong was incorporated in February 2009. Xi'an Zhonghong New Energy Technology Co., Ltd. was incorporated in July, 2013. Xi'an TCH paid RMB 27 million ($4.37 million) and owns 90% of Zhonghong. Zhonghong is engaged to provide energy saving solutions and services, including constructing, selling and leasing energy saving systems and equipment to customers. Zhongxun was incorporated in March 2014, and is a wholly-owned subsidiary of Xi'an TCH.

**Our Projects**

We design, finance, construct, operate and eventually transfer waste energy recycling projects to meet the energy saving and recovery needs of our customers. Our waste energy recycling projects use the pressure, heat or gas, which is generated as a byproduct of a variety of industrial processes to create electricity. The residual energy from industrial processes, which was traditionally wasted, may be captured in a recovery process and utilized by our waste energy recycling projects to generate electricity burning additional fuel and additional emissions. Among a wide variety of waste-to-energy technologies and solutions, we primarily focus on waste pressure to energy systems, waste heat to energy systems and waste gas power generation systems. We do not manufacture the equipment and materials that are used in the construction of our waste energy recycling projects. Rather, we incorporate standard power generating equipment into a fully integrated onsite project for our customers.

*Waste Pressure to Energy Systems*

TRT is a power generating system utilizing the exhaust pressure and heat from industrial processes in the iron, steel, petrochemical, chemical and non-ferrous metals industries, often from blast furnace gases in the metal production industries. Without TRT power systems, blast furnace gas is treated by various de-pressurizing valves to decrease its pressure and temperature before the gas is transmitted to end users. No electricity is generated during the process and noise and heat pollution is released. In a TRT system, the blast furnace gas produced during the smelting process is directed through the system to decrease its pressure and temperature. The released pressure and heat is then utilized to drive the turbine unit to generate electricity, which is then transmitted back to the producer. We believe our projects are superior to those of our competitors due to the inclusion of advanced dry-type de-dusting technology, joined turbine systems, and automatic power grid synchronization.

*Waste Heat to Energy Systems*

Waste heat to energy systems utilize waste heat generated in industrial production to generate electricity. The waste heat is trapped to heat a boiler to create steam and power a steam turbine. Our waste heat to energy systems have used waste heat from cement production and from metal production. We invested and have built two cement low temperature heat power generation systems. These projects can use about 35% of the waste heat generated by the cement kiln, and generate up to 50% of the electricity needed to operate the cement plant.

*Waste Gas to Energy Systems*

Our Waste Gas to Energy Systems primarily include Waste Gas Power Generation ("WGPG") systems and Combined Cycle Power Plant ("CCPP") systems. WGPG uses the flammable waste gases emitted from industrial production processes such as blast furnace gas, coke furnace gas, and oil gas, to power gas-fired generators to create energy. A CCPP system employs more than one power generating cycle to utilize the waste gas, which is more efficient because it not only generates electricity by burning the flammable waste gas in a gas-fired generator (WGPG) but also uses the waste heat from burning the gas to make steam to generate additional electricity via a steam generator (CCPP).

*Shanghai TCH and its Subsidiaries*

Shanghai TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004 and has a registered capital of $29.80 million. Xi'an TCH was incorporated in Xi'an, Shaanxi Province under the laws of the PRC on November 8, 2007. In February 2009, Huahong was incorporated in Xi'an, Shaanxi province. Erdos TCH was incorporated in April 2009 in Erdos, Inner Mongolia Autonomic Region. On July 19, 2013, Xi'an TCH formed a new company called Xi'an Zhonghong New Energy Technology Co., Ltd ("Zhonghong"). Xi'an TCH owns 90% of Zhonghong, which provides energy saving solutions and services, including constructing, selling and leasing energy saving systems and equipment to customers. On March 24, 2014, Xi'an TCH incorporated a new subsidiary, Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun") with registered capital of $5,695,502 (RMB 35,000,000). Zhongxun is 100% owned by Xi'an TCH and is mainly engaged in project investment, investment management, economic information consulting, and technical services. Zhongxun has not yet commenced operations as of this report date.

As of December 31, 2016, Xi'an TCH, a wholly owned subsidiary of Shanghai TCH, was leasing the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11.9 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11 year term); and (iii) Shenqiu Phase II (9.5 year term). In addition, as of December 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of twenty (20) years.

*Erdos TCH – Joint Venture*

On April 14, 2009, the Company formed a joint venture (the "JV") with Erdos Metallurgy Co., Ltd. ("Erdos") to recycle waste heat from Erdos' metal refining plants to generate power and steam to be sold back to Erdos. The name of the JV was Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd. with a term of 20 years. Total investment for the project was estimated at $79 million (RMB 500 million) with an initial investment of $17.55 million (RMB 120

million). Erdos contributed 7% of the total investment of the project, and Xi'an TCH Energy Technology Co., Ltd. ("Xi'an TCH") contributed 93%. According to the parties' agreement on profit distribution, Xi'an TCH and Erdos will receive 80% and 20%, respectively, of the profit from the JV until Xi'an TCH receives the complete return of its investment. Xi'an TCH and Erdos will then receive 60% and 40%, respectively, of the profit from the JV. On June 15, 2013, Xi'an TCH and Erdos entered into a share transfer agreement, pursuant to which Erdos transferred and sold its 7% ownership interest in the JV to Xi'an TCH for $1.29 million (RMB 8 million), plus certain accumulated profits as described below. Xi'an TCH paid the $1.29 million in July 2013 and, as a result, became the sole stockholder of the JV. In addition, Xi'an TCH paid Erdos accumulated profits from inception up to June 30, 2013 in accordance with a supplementary agreement entered on August 6, 2013. In August 2013, Xi'an TCH paid 20% of the accumulated profit (calculated under PRC GAAP) of $226,000 to Erdos. The JV currently has two power generation systems in Phase I with a total of 18MW power capacity, and three power generation systems in Phase II with a total of 27MW power capacity. On April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016, Erdos TCH cancelled monthly minimum lease payments from Erdos, and charges Erdos based on actual electricity sold at RMB 0.30 / Kwh. The selling price of each Kwh will be determined annually based on market condition. The Company evaluated the modified terms for payments based on actual electricity sold as minimum lease payments as defined in ASC 840-10-25-4, since lease payments that depend on a factor directly related to the future use of the leased property are contingent rentals and, accordingly, are excluded from minimum lease payments in their entirety. The Company wrote off the net investment receivables of these leases at the lease modification date.

*Pucheng Biomass Power Generation Projects*

On June 29, 2010, Xi'an TCH entered into a Biomass Power Generation ("BMPG") Project Lease Agreement with PuchengXinHeng Yuan Biomass Power Generation Co., Ltd. ("Pucheng"), a limited liability company incorporated in China. Under this lease agreement, Xi'an TCH leased a set of 12MW BMPG systems to Pucheng at a minimum of $279,400 (RMB 1,900,000) per month for a term of 15 years.

On September 11, 2013, Xi'an TCH entered into a BMPG Asset Transfer Agreement (the "Pucheng Transfer Agreement") with Pucheng. The Pucheng Transfer Agreement provided for the sale by Pucheng to Xi'an TCH of a set of 12MW BMPG systems with completion of system transformation for a purchase price of RMB 100 million ($16.48 million) in the form of 8,766,547 shares of common stock of the Company at the price of $1.87 per share. These shares were issued to Pucheng on October 29, 2013. Also on September 11, 2013, Xi'an TCH entered into a BMPG Project Lease Agreement with Pucheng (the "Pucheng Lease"). Under the Pucheng Lease, Xi'an TCH leases this same set of 12MW BMPG system to Pucheng, and combined this lease with the lease for the 12MW BMPG station of Pucheng Phase I project, under a single lease to Pucheng for RMB 3.8 million ($0.63 million) per month (the "Pucheng Phase II Project"). The term for the combined lease is from September 2013 to June 2025. The lease agreement for the 12MW station from Pucheng Phase I project terminated upon the effective date of the Pucheng Lease. The ownership of two 12 MW BMPG systems will be transferred to Pucheng at no additional charge when the Pucheng Lease expires.

*Shenqiu Yuneng Biomass Power Generation Projects*

On May 25, 2011, Xi'an TCH entered into a Letter of Intent with ShenqiuYuNeng Thermal Power Co., Ltd. ("Shenqiu") to reconstruct and transform a Thermal Power Generation System owned by Shenqiu into a 75T/H BMPG System for $3.57 million (RMB 22.5 million). The project commenced in June 2011 and was completed in the third quarter of 2011. On September 28, 2011, Xi'an TCH entered into a BMPG Asset Transfer Agreement with Shenqiu (the "Shenqiu Transfer Agreement"). Pursuant to the Shenqiu Transfer Agreement, Shenqiu sold Xi'an TCH a set of 12 MW BMPG systems (after Xi'an TCH converted the system for BMPG purposes). As consideration for the BMPG systems, Xi'an TCH agreed to pay Shenqiu $10,937,500 (RMB 70 million) in cash in three installments within six months upon the transfer of ownership of the systems. By the end of 2012, all of the consideration was paid. On September 28, 2011, Xi'an TCH and Shenqiu also entered into a BMPG Project Lease Agreement (the "2011 Shenqiu Lease"). Under the 2011 Shenqiu Lease, Xi'an TCH agreed to lease a set of 12MW BMPG systems to Shenqiu at a monthly rental rate of $286,000 (RMB 1,800,000) for 11 years. Upon expiration of the 2011 Shenqiu Lease, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost. In connection with the 2011 Shenqiu Lease, Shenqiu paid one month's rent as a security deposit to Xi'an TCH, in addition to providing personal guarantees.

On October 8, 2012, Xi'an TCH entered into a Letter of Intent for technical reformation of Shenqiu Project Phase II with Shenqiu for technical reformation to enlarge the capacity of the Shenqiu Project Phase I (the "Shenqiu Phase II Project"). The technical reformation involved the construction of another 12MW BMPG system. After the reformation, the generation capacity of the power plant increased to 24MW. The project commenced on October 25, 2012 and was completed during the first quarter of 2013. The total cost of the project was $11.1 million (RMB 68 million). On March 30, 2013, Xi'an TCH and Shenqiu entered into a BMPG Project Lease Agreement (the "2013 Shenqiu Lease"). Under the 2013 Shenqiu Lease, Xi'an TCH agreed to lease the second set of 12MW BMPG systems to Shenqiu for $239,000 (RMB 1.5 million) per month for 9.5 years. When the 2013 Shenqiu Lease expires, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost.

*Shanxi Datong Coal Group Power Generation Projects*

In February 2011, Xi'an TCH entered into an agreement with Shanxi Datong Coal Group Steel Co., Ltd. ("Shanxi Datong") to recycle gas and steam from groups of blast-furnaces and converters at Shanxi Datong's metal refining plants to generate power and pursuant to which Xi'an TCH agreed to install two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and, one 15MW Waste Gas Power Generation ("WGPG") system with a total of 21MW power capacity for an estimated total investment of $28.6 million (RMB 180 million). In June 2013, the two 3MW BPRT power generation systems were completed. The lease term is 30 years, during which time Shanxi Datong will pay a service fee to Xi'an TCH. The service fee was based on an average of 8,000 electricity-generating hours per year and $0.05 (RMB 0.33) per kilowatt hour ("kWh") for the first five years from the completion of each power generation station. For each of the leases, at the 6th, 11th and 21st year anniversary of the date of the lease, the rates will change to RMB 0.3 kWh, 0.27 kWh and 0.25 kWh, respectively. In May 2012, Shanxi Datong and Tianjin Construction Materials Group (Holding) Co., Ltd. were restructured and renamed as Datong Coal Mine Tianjian Iron & Steel Co., Ltd. ("Datong"). On June 10, 2013, Xi'an TCH and Shanxi Datong entered into a supplemental agreement relating to the minimum service fee. The minimum service fee per month for the first five years was $0.19 million (RMB 1.2 million), $0.18 million (RMB 1.1 million) for the second five years, $0.16 million (RMB 1.0 million) for the following 10 years and $0.15 million (RMB 0.9 million) for the last 10 years. After 30 years, the units will be transferred to Datong at no additional charge. On May 26, 2015, the 15MW WGPG system was completed.

Due to the change of its strategic plan, Datong notified Xi'an TCH that it would not be able to fulfill its obligations under the Cooperative Agreement and requested to repurchase the two 3MW BPRT systems and one 15MW WGPG system (the "Systems") from Xi'an TCH and terminate the Cooperative Agreement. On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the Systems from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million ($193,548) to Xi'an TCH within five business days from the execution of the Repurchase Agreement. The Systems were transferred to Datong for a total price of RMB 250 million ($40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million for one WGPG system. As of June 30, 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at the date of transfer was $13.37 million. The Company recorded a $2.98 million gain from two BPRT systems as non-operating income and a $3.02 million gain from the WGPG system as gross profit from the sale.

*Jitie Power Generation Projects*

In May 2013, Xi'an TCH signed a contract with Sinosteel Jilin Ferroalloys Co., Ltd. ("Jitie") to build furnace gas WHPG systems for electricity generation from recycled heat and steam from groups of ferroalloy furnaces and electric furnaces (the "Jitie Project"). According to the contract, Xi'an TCH installed a 7.5 MW and a 3 MW turbine power generation system with a total of 10.5 MW power capacity for an estimated total investment of $9.71 million (RMB 60 million). The lease term is 24 years. During the term of this lease, Jitie will pay a service fee to Xi'an TCH based on the actual generating capacity with a minimum service fee per month of $300,000 (RMB 1.8 million). Xi'an TCH is responsible for the systems operation and will own the power generation systems. In December 2013, the Jitie Project was completed and began operations.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie repurchased the Jitie Project from Xi'an TCH and paid outstanding energy saving service fees of RMB 1.8 million ($294,599) to Xi'an TCH within five business days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project was transferred to Jitie for a total price of RMB 90 million ($14.73 million). In July 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable on the date of the transfer was $13.10 million. The Company recorded a $1.62 million gain from this transaction.

*Yida Coke Oven Gas Power Generation Projects*

On June 28, 2014, Xi'an TCH entered into an Asset Transfer Agreement (the "Transfer Agreement") with Qitaihe City BoliYida Coal Selection Co., Ltd. ("Yida"), a limited liability company incorporated in China. The Transfer Agreement provided for the sale to Xi'an TCH of a 15 MW coke oven gas power generation station, which had been converted from a 15 MW coal gangue power generation station from Yida. As consideration for the Transfer Asset, Xi'an TCH

was to pay to Yida RMB 115 million ($18.69 million) in the form of the common stock shares of the Company at the average closing price per share of the Stock for the 10 trading days prior to the closing date of the transaction ($2.27 per share). The exchange rate between the US Dollar and Chinese RMB in connection with the stock issuance is the rate equal to the middle rate published by the People's Bank of China on the closing date of the assets transfer. Accordingly, the Company issued 8,233,779 shares (the "Shares") for the Yida 15 MW coke oven gas power generation station, the fair value of 8,233,779 shares was $14.49 million based on the stock price at agreement date ($1.76 per share), and was the cost of the power generation station.

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On June 28, 2014, Xi'an TCH also entered into a Coke Oven Gas Power Generation Project Lease Agreement (the "Lease Agreement") with Yida. Under the Lease Agreement, Xi'an TCH leased the Transfer Asset to Yida for RMB 3 million ($0.49 million) per month, and the term of the lease is from June 28, 2014 to June 27, 2029. Yida provided an RMB 3 million ($0.49 million) security deposit (without interest) for the lease. Xi'an TCH will transfer the Transfer Asset back to Yida at no cost at the end of the lease term.

On June 22, 2016, Xi'an TCH entered into a Coal Oven Gas Power Generation Project Repurchase Agreement (the "Repurchase Agreement") with Yida. Under the Repurchase Agreement, Xi'an TCH agreed to transfer to Yida all the project assets for consideration of RMB 112,000,000 ($16.89 million) (the "Transfer Price") with Yida's retention of ownership of the Shares. Yida agreed to make the following payments: (i) the outstanding monthly leasing fees for April and May 2016 in total of RMB 6,000,000 ($0.90 million) to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; (ii) a payment of RMB 50,000,000 ($7.54 million) of the Transfer Price to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; and (iii) a payment of the remaining RMB 62,000,000 ($9.35 million) of the Transfer Price to Xi'an TCH within 15 business days from the execution of the Repurchase Agreement. Under the Repurchase Agreement, ownership of the project assets will be transferred from Xi'an TCH to Yida within 3 business days after Xi'an TCH receives the full Transfer Price and the outstanding monthly leasing fees. As of June 30, 2016, Xi'an TCH had received the outstanding monthly leasing fees for April and May 2016 in the amount of $0.90 million and the first payment of the Transfer Price in the amount of $7.54 million. On July 11, 2016, the Company received the second payment of the Transfer Price in the amount of $9.35 million. The Company recorded a $0.42 million loss from this transaction.

*The Fund Management Company*

On June 25, 2013, Xi'an TCH and HongyuanHuifu Venture Capital Co. Ltd. ("HongyuanHuifu") jointly established Hongyuan Recycling Energy Investment Management Beijing Co., Ltd. (the "Fund Management Company") with registered capital of RMB 10 million. Xi'an TCH made an initial capital contribution of RMB 4 million ($650,000) and has a 40% ownership interest in the Fund Management Company. With respect to the Fund Management Company, voting rights and dividend rights are allocated 80% and 20% between HongyuanHuifu and Xi'an TCH, respectively.

The Fund Management Company serves as the general partner of Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF Fund"), a limited liability partnership established on July 18, 2013 in Beijing. The Fund Management Company made an initial capital contribution of RMB 5 million ($830,000) to the HYREF Fund. An initial total amount of RMB 460 million ($75 million) has been fully subscribed by all partners for the HYREF Fund. The HYREF Fund has three limited partners: (1) China Orient Asset Management Co., Ltd., which made an initial capital contribution of RMB 280 million ($46.67 million) to the HYREF Fund and is a preferred limited partner; (2) HongyuanHuifu, which made an initial capital contribution of RMB 100 million ($16.67 million) to the HYREF Fund and is an ordinary limited partner; and (3) the Company's wholly-owned subsidiary, Xi'an TCH, which made an initial capital contribution of RMB 75 million ($12.5 million) to the HYREF Fund and is a secondary limited partner. The

term of the HYREF Fund's partnership is six years from the date of its establishment, expiring on July 18, 2019. The current term is four years from the August 2016 date of contribution for the preferred limited partner, or four years from the date of contribution for the ordinary limited partner. The total size of the HYREF Fund is RMB 460 million ($76.66 million). The HYREF Fund was formed for the purpose of investing in Xi'an Zhonghong New Energy Technology Co., Ltd., a 90% owned subsidiary of Xi'an TCH, for the construction of two coke dry quenching ("CDQ") WHPG stations with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu") and one CDQ WHPG station with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli").

*Chengli Waste Heat Power Generation Projects*

On July 19, 2013, Xi'an TCH formed a new company "Xi'an Zhonghong New Energy Technology Co., Ltd." ("Zhonghong") with registered capital of RMB 30 million ($4.85 million). Xi'an TCH paid RMB 27 million ($4.37 million) and owns 90% of Zhonghong. Zhonghong is engaged to provide energy saving solution and services, including constructing, selling and leasing energy saving systems and equipment to customers.

On July 24, 2013, Zhonghong entered into a Cooperative Agreement of CDQ and CDQ WHPG Project with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli"). The parties entered into a supplement agreement on July 26, 2013. Pursuant to these agreements, Zhonghong will design, build and maintain a 25 MW CDQ system and a CDQ WHPG system to supply power to Chengli, and Chengli will pay energy saving fees (the "Chengli Project"). Chengli will contract the operation of the system to a third party contractor that is mutually agreed to by Zhonghong. In addition, Chengli will provide the land for the CDQ system and CDQ WHPG system at no cost to Zhonghong. The term of the Agreements is for 20 years. The first 800 million watt hours generated by the Chengli Project will be charged at RMB 0.42 ($0.068) per kilowatt hour (excluding tax); thereafter, the energy saving fee will be RMB 0.20 ($0.036) per kilowatt hour (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours per year due to a reason attributable to Chengli, then time charged shall be 8,000 hours a year, and if it is less than 8,000 hours due to a reason attributable to Zhonghong, then it shall be charged at actual operating hours. The construction of the Chengli Project was completed in the second quarter of 2015 and commissioning tests were successfully completed in the first quarter of 2017. The Company expects the Chengli Project to be operational in the second quarter of 2017, provided that the required power generating license is granted. When operations begin, Chengli shall ensure its coking production line works properly and that working hours for the CDQ system are at least 8,000 hours per year, and Zhonghong shall ensure that working hours and the CDQ WHPG system will be at least 7,200 hours per year.

On July 22, 2013, Zhonghong entered into an Engineering, Procurement and Construction ("EPC") General Contractor Agreement for the Boxing County Chengli Gas Supply Co., Ltd. CDQ Power Generation Project (the "Huaxin Project") with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong, as the owner of the Huaxin Project, contracted EPC services for a CDQ system and a 25 MW CDQ WHPG system for Chengli to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Huaxin Project and ensure the CDQ system and CDQ WHPG system for Chengli meet the inspection and acceptance requirements and work normally. The Huaxin Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 200 million ($33.34 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs. We anticipate that Huaxin Project will be operational in the second quarter of 2017.

*Tianyu Waste Heat Power Generation Project*

On July 19, 2013, Zhonghong entered into a Cooperative Agreement (the "Tianyu Agreement") for Energy Management of CDQ and CDQ WHPG Project with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu"). Pursuant to the Tianyu Agreement, Zhonghong will design, build, operate and maintain two sets of 25 MW CDQ systems and CDQ WHPG systems for two subsidiaries of Tianyu – Xuzhou Tian'an Chemical Co., Ltd. ("Xuzhou Tian'an") and Xuzhou Huayu Coking Co., Ltd ("Xuzhou Huayu") – to be located at Xuzhou Tian'an and Xuzhou Huayu's respective locations (the "Tianyu Project"). Upon completion of the Tianyu Project, Zhonghong will charge Tianyu an energy saving service fee of RMB 0.534 ($0.087) per kilowatt hour (excluding tax). The operating time will be based upon an average 8,000 hours annually for each of Xuzhou Tian'an and Xuzhou Huayu. If the operating time is less than 8,000 hours per year due to a reason attributable to Tianyu, then time charged will be 8,000 hours a year. The term of the

Tianyu Agreement is 20 years. The construction of the Xuzhou Tian'an Project is anticipated to be completed by the third quarter of 2017. Xuzhou Tian'an will provide the land for the CDQ and CDQ WHPG systems for free. Xuzhou Tian'an also guarantees that it will purchase all of the power generated by the CDQ WHPG systems. The Xuzhou Huayu Project is currently on hold due to a conflict between Xuzhou Huayu Coking Co., Ltd and local residents on certain pollution-related issues. The local residents were requested to move out from the hygienic buffer zone of the project location with compensatory payments from the government. Xuzhou Huayu was required to stop production and implement technical innovations of pollution discharge including sewage treatment, dust collection, noise control, and recycling of coal gas. Currently, some local residents have moved out. Xuzhou Huayu has completed the implementation of the technical innovations of sewage treatment, dust collection, and noice control, and expects to complete the recycling of coal gas by the end of June 2017. Once Huayu obtains government's acceptance and approval of the technical innovations, the project will resume.

On July 22, 2013, Zhonghong entered into an EPC General Contractor Agreement for the Tianyu Project with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong, as the owner of the Tianyu Project, contracted EPC services for two CDQ systems and two 25 MW CDQ WHPG systems for Tianyu to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Tianyu Project and ensure the CDQ and CDQ WHPG systems for Tianyu meet the inspection and acceptance requirements and work normally. The Tianyu Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 400 million ($66.68 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs.

*Zhongtai Waste Heat Power Generation Energy Management Cooperative Agreement*

On December 6, 2013, Xi'an entered into a CDQ and WHPG Energy Management Cooperative Agreement (the "Zhongtai Agreement") with Xuzhou Zhongtai Energy Technology Co., Ltd. ("Zhongtai"), a limited liability company incorporated in Jiangsu Province, China.

Pursuant to the Zhongtai Agreement, Xi'an TCH will design, build and maintain a 150 ton per hour CDQ system and a 25 MW CDQ WHPG system and sell the power to Zhongtai, and Xi'an TCH will also build a furnace to generate steam from the waste heat of the smoke pipeline and sell the steam to Zhongtai.

The construction period of the Project is expected to be 18 months from the date when conditions are ready for construction to begin. Zhongtai will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The payment term is 20 years. For the first 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.534 ($0.089) per kilowatt hour (including value added tax) for the power generated from the system. For the second 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.402 ($0.067) per kilowatt hour (including value added tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Zhongtai shall also pay an energy saving service fee for the steam supplied by Xi'an TCH at RMB 100 ($16.67) per ton (including value added tax). Zhongtai and its parent company will provide guarantees to ensure Zhongtai will fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Zhongtai at RMB 1 ($0.16). Zhongtai shall provide waste heat to the systems for no less than 8,000 hours per year and waste gas volume no less than 150,000 Nm3 per hour with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Zhongtai wants to terminate the Zhongtai Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: (1) if it is less than five years into the term when Zhongtai requests termination, Zhongtai shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's annual investment return times five years minus the years in which the system has already operated); or 2) if it is more than five years into the term when Zhongtai requests the termination, Zhongtai shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin (the "Transfer Agreement"). Under the Transfer Agreement, Xi'an TCH agreed to transfer to Zhongtai all of the assets associated with the CDQ Waste Heat Power Generation Project (the "Project"), which is under construction pursuant to the Zhongtai Agreement. Xi'an Huaxin will continue to construct and complete the Project and Xi'an TCH agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai agreed to pay to Xi'an TCH an aggregate transfer price of RMB 167,360,000 ($25.77 million) including payments of: (i) RMB 152,360,000 ($23.46 million) for the construction of the Project; and (ii) RMB 15,000,000 ($2.31 million) as payment for partial loan interest accrued during the construction period. Those amounts have been, or will be, paid by Zhongtai to Xi'an TCH according to the following schedule: (a) RMB 50,000,000 ($7.70

million) was paid within 20 business days after the Transfer Agreement was signed; (b) RMB 30,000,000 ($4.32 million) will be paid within 20 business days after the Project is completed, but no later than July 30, 2016; and (c) RMB 87,360,000 ($13.45 million) will be paid no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. (“Xuzhou Taifa”) has guaranteed the payments from Zhongtai to Xi’an TCH. The ownership of the Project was conditionally transferred to Zhongtai following the initial payment of RMB 50,000,000 ($7.70 million) by Zhongtai to Xi’an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes all payments pursuant to the Transfer Agreement. As of December 31, 2016, Xi’an TCH had received the first payment of $7.70 million and the second payment of $4.32 million. The Company recorded a $2.82 million loss from this transaction.

*Rongfeng CDQ Power Generation Energy Management Cooperative Agreement*

On December 12, 2013, Xi'an TCH entered into a CDQ Power Generation Energy Management Cooperative Agreement with Tangshan Rongfeng Iron & Steel Co., Ltd. (the "Rongfeng Agreement"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Rongfeng Agreement, Xi'an TCH will design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Rongfeng. The construction period of the Project is expected to be 18 months after the Agreement takes effect and from the date when conditions are ready for construction to begin.

Rongfeng will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The payment term is 20 years. For the first 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.582 ($0.095) per kilowatt hour (including tax) for the power generated from the system. For the second 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.432 ($0.071) per kWh (including tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Rongfeng and its parent company will provide guarantees to ensure Rongfeng will fulfill its obligations under the Rongfeng Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Rongfeng at RMB 1. Rongfeng shall provide waste heat to the systems for no less than 8,000 hours per year with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Rongfeng wants to terminate the Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it is less than five years (including five years) into the term when Rongfeng requests termination, Rongfeng shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system has already operated); 2) if it is more than five years into the term when Rongfeng requests the termination, Rongfeng shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH would transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng is to pay to Xi'an TCH an aggregate purchase price of RMB 165,200, 000 ($25.45 million), whereby (a) RMB 65,200,000 ($10.05 million) was to be paid by Rongfeng to Xi'an TCH within 20 business days after signing the Transfer Agreement, (b) RMB 50,000,000 ($7.70 million) is to be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest stockholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 ($10.05 million) by Rongfeng to Xi'an TCH and the full ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. The Company recorded a $3.78 million loss from this transaction in 2015. As of December 31, 2016, the Company received full payment of $25.45 million.

*Baoliyuan CDQ Power Generation Energy Management Cooperative Agreement*

On March 26, 2014, Xi'an TCH entered into a CDQ Waste Heat Recycling Project Energy Management Cooperative Agreement with Tangshan Baoliyuan Coking Co., Ltd. ("Baoliyuan"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Agreement, Xi'an TCH agreed to design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Baoliyuan (the "CDQ Project") and Xi'an TCH will also build a high scale waste water treatment system for Baoliyuan and charge monthly payments for two years (the "Waste Water Treatment Project").

Baoliyuan agreed to pay an energy saving fee from the date when the WHPG station passed the required 72-hour test run. The payment term was twenty years and Baoliyuan agreed to pay an energy saving fee at RMB 0.7 ($0.114) per kilowatt hour (including tax) for the power generated from the system, from which Xi'an TCH shall take 92.86% and Baoliyuan was to take 7.14% as parties to share the energy saving benefits. During the term of the contract the energy saving fee was to be adjusted at the same percentage as the change of local grid electricity price. Baoliyuan was to provide guarantees to ensure it would fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH was to transfer the systems to Baoliyuan at RMB 1.

Baoliyuan was to provide waste heat to the systems for no less than 8,000 hours per year and coking production was to reach 80% of its capacity. If these requirements were not met, the energy saving fee was to be calculated according to such hours and capacity.

Baoliyuan could terminate the Agreement prior to the end of the term by providing Xi'an TCH with 60 days' notice and upon the payment of the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it was less than five years (including five years) into the term when Baoliyuan requested termination, Baoliyuan was to pay Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system had already operated); 2) if it was more than five years into the term when Baoliyuan requested the termination, Baoliyuan was to pay Xi'an TCH's total investment amount minus total amortization cost (the amortization period is twenty years).

From the first month of the completion of Waste Water Treatment Project, Baoliyuan was to pay a fixed monthly fee for the waste water treatment system at RMB 1.05 million per month ($171,010) for the first 12 months and RMB 940,000 per month ($153,094) for the next 12 months.

The Baoliyuan project was cancelled in May 2015 because the project required blasting and leveling of a mountain and Baoliyuan could not obtain all the necessary permits for the construction from the local government due to environmental concerns of the government.

*Formation of Zhongxun*

On March 24, 2014, Xi'an TCH incorporated a new subsidiary, Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun") with registered capital of $5,695,502 (RMB 35,000,000). Zhongxun is 100% owned by Xi'an TCH and is mainly engaged in project investment, investment management, economic information consulting, and technical services. Zhongxun has not yet commenced operations as of the date of this report.

*Formation of Yinghua*

On February 11, 2015, the Company incorporated a new subsidiary, Shanghai Yinghua Financial Leasing Co., Ltd ("Yinghua") with registered capital of $30,000,000, to be paid within ten years from the date the business license is issued. Yinghua is 100% owned by the Company and is mainly engaged in financial leasing, purchase of financial leasing assets, disposal and repair of financial leasing assets, consulting and ensuring of financial leasing transactions,

and related factoring business. Yinghua has not yet commenced operations as of the date of this report.

*Summary of Sales-Type Lease at December 31, 2016*

*Status at December 31, 2016*

As of December 31, 2016, Xi'an TCH leases the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11-year term); and (iii) Shenqiu Phase II (9.5-year term). In addition, as of December 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of 20 years.

*Asset Repurchase Agreement*

During the years ended December 31, 2016 and 2015, the Company entered into the following Asset Repurchase Agreements:

On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and one 15MW WGPG system (the "Systems") from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million ($193,548) to Xi'an TCH within five business days from the execution of the Repurchase Agreement. The Systems would be transferred to Datong for a total price of RMB 250 million ($40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million ($24.54 million) for one WGPG system. Datong paid the repurchase price to Xi'an TCH and, as of June 30, 2015, the systems were transferred. The outstanding balance of net investment receivable on the date of transfer was $13.37 million. The Company recorded a $2.98 million gain from two BPRT systems as non-operating income and a $3.02 million gain from the WGPG system as gross profit from the sale.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie agreed to repurchase the Jitie Project from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.8 million ($294,599) to Xi'an TCH within five business days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project would be transferred to Jitie for a total price of RMB 90 million ($14.73 million), and Jitie agreed to pay RMB 45 million within five business days from the execution of the Repurchase Agreement and pay another RMB 45 million within 15 business days from the execution of the Repurchase Agreement. As of June 30, 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at date of transfer was $13.10 million. The Company recorded a $1.62 million gain from this transaction.

On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH agreed to transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng will pay to Xi'an TCH an aggregate purchase price of RMB 165,200, 000 ($25.45 million), whereby (a) RMB 65,200,000 ($10.05 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Transfer Agreement is signed, (b) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest stockholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 ($10.05 million) by Rongfeng to Xi'an TCH and the full

ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. The Company recorded a $3.78 million loss from this transaction in 2015. As of December 31, 2016, the Company received full payment of $25.45 million.

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin (the "Transfer Agreement"). Under the Transfer Agreement, Xi'an TCH agreed to transfer to Zhongtai all of the assets associated with the CDQ Waste Heat Power Generation Project (the "Project"), which is under construction pursuant to the Zhongtai Agreement. Xi'an Huaxin will continue to construct and complete the Project and Xi'an TCH agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai agreed to pay to Xi'an TCH an aggregate transfer price of RMB 167,360,000 ($25.77 million) including payments of: (i) RMB 152,360,000 ($23.46 million) for the construction of the Project; and (ii) RMB 15,000,000 ($2.31 million) as payment for partial loan interest accrued during the construction period. Those amounts have been, or will be, paid by Zhongtai to Xi'an TCH according to the following schedule: (a) RMB 50,000,000 ($7.70 million) was paid within 20 business days after the Transfer Agreement was signed; (b) RMB 30,000,000 ($4.32 million) will be paid within 20 business days after the Project is completed, but no later than July 30, 2016; and (c) RMB 87,360,000 ($13.45 million) will be paid no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments from Zhongtai to Xi'an TCH. The ownership of the Project was conditionally transferred to Zhongtai following the initial payment of RMB 50,000,000 ($7.70 million) by Zhongtai to Xi'an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes all payments pursuant to the Transfer Agreement. As of December 31, 2016, Xi'an TCH had received the first payment of $7.70 million and the second payment of $4.32 million. The Company recorded a $2.82 million loss from this transaction.

On June 22 2016, Xi'an TCH entered into a Coal Oven Gas Power Generation Project Repurchase Agreement (the "Repurchase Agreement") with Yida. Under the Repurchase Agreement, Xi'an TCH agreed to transfer to Yida all the project assets for consideration of RMB 112,000,000 ($16.89 million) (the "Transfer Price") with Yida's retention of ownership of the Shares. Yida agreed to make the following payments: (i) the outstanding monthly leasing fees for April and May 2016 in total of RMB 6,000,000 ($0.90 million) to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; (ii) a payment of RMB 50,000,000 ($7.54 million) of the Transfer Price to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; and (iii) a payment of the remaining RMB 62,000,000 ($9.35 million) of the Transfer Price to Xi'an TCH within 15 business days from the execution of the Repurchase Agreement. Under the Repurchase Agreement, ownership of the project assets will be transferred from Xi'an TCH to Yida within 3 business days after Xi'an TCH receives the full Transfer Price and the outstanding monthly leasing fees. As of December 31, 2016, Xi'an TCH had received the outstanding monthly leasing fees for April and May 2016 in the amount of $0.90 million and the first payment of the Transfer Price in the amount of $7.54 million. On July 11, 2016, the Company received the second payment of the Transfer Price in the amount of $9.35 million. The Company recorded a $0.42 million loss from this transaction.

**Industry and Market Overview**

***Overview of Waste-to-Energy Industry***

The waste energy recycling industry concentrates mostly on power-intensive manufacturing and production processes, such as iron, steel and nonferrous metal production, cement production, and coal and petrochemical plants. Our waste energy recycling projects allow customers to recapture previously wasted pressure, heat, and gas from their manufacturing and production processes and use this waste to generate electricity. Waste energy recycling projects are installed at a customer's facility and the electricity produced can be used on-site to lower energy costs and create a more efficient production process. The industry verticals at the vanguard of this trend are metallurgical production (including iron & steel), cement, coal mining, coke production and petrochemicals.

The industry also includes the conversion of biomass to electricity. For thousands of years, biomass, biological material derived from living organisms like plants and their byproducts, was burned to produce heat so as to convert it to energy. A number of non-combustion methods are now available to convert raw biomass into a variety of gaseous, liquid, or solid fuels that can be used directly in a power plant to generate electricity.

***Waste-to-Energy Industry Growth***

China has experienced rapid economic growth and industrialization in recent years, increasing the demand for electricity. In the PRC, growth in energy consumption has exceeded growth in gross domestic product, causing a shortage of electricity with blackouts and brownouts over much of the country. Much of the energy demand has been due to the expansion of energy intensive industrial sectors such as steel, cement, and chemicals. China's increasing modernization and industrialization has made it the world's largest consumer of energy.

One result of this massive increase in electric generation capacity has been the rise of harmful emissions. China has surpassed the United States to become the world's largest emitter of greenhouse gases, and the country faces enormous challenges from the pollution brought about by its consumption of conventional energy. On September 12, 2013, the State Council has released the Action Plan for Air Pollution Prevention and Control. The action plan has proposed that in five years, China will witness the overall improvement of air quality and dramatic drop of seriously polluted days. China will strive to gradually eliminate the seriously polluted weather and notably better the national air quality in another five years or longer. Specific targets are as follows: PM10 in cities at prefecture level or above declines by over 10% in 2017 compared with that in 2012 and premium air quality days increase year by year. The PM2.5 of the Beijing-Tianjin-Hebei, Yangtze Delta and Pearl River Delta areas drops by about 25%, 20% and 15% respectively and the annual PM2.5 in Beijing is controlled to within 60 micrograms per cubic meter.

***Description of WGPG (Waste Gas Power Generation)***

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

Gas turbines are a set of hi-tech equipment and devices that is crucial to the energy development strategy of China. Gas turbine, which uses flammable gas as fuel and combines with recycling power generating technology, has many merits. These include high efficiency power generation, low investment, short construction periods, small land usage, water savings, environment protection and more. We believe the market prospect of the gas turbine industry is promising. On January 2013, the State Council released “Energy ‘Twelfth Five-Year’ Plan “. The Plan has proposed to focus on developing natural gas power generation. The total volume of gas power generating is expected to reach 56,000 MW, representing 16.2% growth rate compared with 2010. During the “Twelfth Five-Year” period, the newly constructed gas power generation station will reach 30,000 MW.

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

***Stringent Environmental Standards and Increasing Government Supports***

Since energy is a major strategic issue affecting the development of the Chinese economy, the Chinese government has promoted the development of recycling and encouraged enterprises to use waste energy recycling projects of the type we sell and service. Similar to previous five year periods, the China National Environment Protection Plan, for the Twelfth five year period (2011-2015), is focused on high energy consumption industries, including specific programs to support the building of waste energy recycling projects for application in iron, steel and nonferrous metal plants and in cement production lines. Given the worsening environment and insufficient energy supply in China, the Chinese government has implemented policies to curb pollution and reduce wasteful energy usage. The Renewable Energy Law, strict administrative measures to restrict investment and force consolidation in energy wasting industries, and the requirement to install energy-saving and environment protecting equipment whenever possible are just some ways the government is emphasizing the need to reduce emissions and to maximize energy creation. Local government officials, who sometimes flout central government policies for the sake of local GDP growth, are now required to tie emission, energy usage and pollution to GDP growth. If local emissions of pollutants grow faster than

the local GDP, these local officials face the risk of losing their jobs. Such determination and strict enforcement by the central and local governments provide a good backdrop and growth opportunity for CREG's business activities.

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The following tables show the funds invested, or expected to be invested, in the environmental protection industry by the Chinese government.

*Source: China National Environmental Protection Plan in the 13th Five Years (2016-2020).*

The 13th Five-Year Plan (2016-2020) covers a crucial period in China's economic and social development. Environmental protection and low-carbon development will be one of the top priority considerations during that period. The government, private enterprises and the public sector will seek to jointly implement the strictest environmental protection system to realize environmental improvement, control carbon emissions, honor climate commitments and deeply participate into global climate governance. China aims to hit the CO2 emissions peak by around 2030 and reduce CO2 emissions per unit of the GDP by 60 percent to 65 percent from the 2005 level on or before 2030.

*Waste-to-Energy is a Cost-Effective Means to Meet Rising Energy Needs*

According to the International Energy Agency, China will need to increase its electricity generating capacity to meet its future needs. This demand may mean price increases for electricity in China. With the need for more energy, in particular energy that does not cause additional emissions, and the relative low price of the waste-to-energy production we provide, we believe that our markets will continue to expand.

Since China has been experiencing a dramatic surge in its energy consumption as well as widespread energy shortages, recycling energy is not only an attractive alternative to other sources of energy as part of a national diversification strategy to avoid dependence on any one energy source or politically sensitive energy supplies, but also a proven solution to make the use of energy more efficient. Under current economic conditions and current tax and regulatory regimes, waste energy recycling projects generally can create price-competitive electricity compared to electricity generated from fossil fuels or other renewable sources. Our customers can reduce energy costs significantly by installing our waste energy recycling projects. Compared to electricity from the national grid, the generating cost from recycling energy is lower, which means our customers can leverage the waste-to-energy projects to generate low-cost electricity, reducing energy costs for the manufacturing process. The current national grid electricity rate ranges from RMB 0.45-0.50/kWh and our operated recycling rate ranges from 0.35-0.45/kWh subject to project type, generating scale and local situation.

Customers of our energy recycling projects may also qualify for credits from the Clean Development Mechanism ("CDM"). The CDM is an international arrangement under the Kyoto Protocol allowing industrialized countries with a greenhouse gas reduction commitment to invest in ventures that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries. In 2005, China's government promulgated "Measures for Operation and Management of Clean Development Mechanism Projects in China" ("China CDM Measures") to facilitate the application and operation of CDM project activities in China. Our energy recycling solutions are of a kind which falls into the beneficial categories accredited by the China CDM Measures. If our customers can get approval from the Chinese government and successfully register their projects in the United Nations' CDM Executive Board, they can receive additional revenue income through exchanging their Certified Emission Reductions ("CER") credits with investors in industrialized countries.

***Trends in Industries We Principally Service***

*Iron, Steel and Nonferrous Metal Industry*

As the biggest iron and steel producer in the world and one of the highest CO2 emission sectors, China's iron and steel industry is undergoing a low-carbon transition accompanied by remarkable technological progress and investment adjustment, in response to the macroeconomic climate and policy intervention.

Environmental pollution, shortage of resources and energy shortage have been identified in China as three major challenges for China's nonferrous metal industry. China aims to save 1.7 million tons of coal and 6 billion kWh of electricity per year, as well as reduce sulfur dioxide by 850,000 tons annually as part of the industrial upgrading for the nonferrous metallurgy sector and, at the same time, to improve the utilization efficiency for resources. In China, the utilization rate for the nonferrous metal mineral resources is 60%, which is 10 to 15% lower than developed countries. The utilization rate for associated nonferrous metals is only 40%, which is 20% lower than developed

nations. In addition, parts of nonferrous mines located in different cities are disorganized with random mining, causing severe wastes of resources.

*Coal and Petrochemicals*

Flammable waste gases emitted from industrial production processes, such as blast furnace gas, coke furnace gas, oil or gas can be used to power gas-fired generators to create energy. Two large producers of these waste gases are coal mining and petrochemical refining. The PRC is the largest coal producer and consumer in the world. Coal is the dirtiest fossil fuel and a major cause of methane gas emissions, a greenhouse gas 21 times more potent than carbon dioxide. Methane gas is found naturally in coal beds. In the 1950s, China began recovering methane to make mines safer. Now, as then, most of the captured methane is released into the air but it could be used as a clean energy source using waste energy recycling technologies.

*Biomass Waste-to-Energy Industry*

In China, agricultural waste and biogas are two main sources for biomass waste. China has more than 600 million tons of wasted straw produced every year. It also has 19 billion tons of forest biomass, of which 300 million tons can be utilized as an energy source. The straw burning power industry will grow faster in China with supportive policies, development of new technologies and the formation of raw material collection and storage systems, according to the National Development and Reform Commission. Electricity generated from straw has a preferential price of RMB 0.25 per kWh higher than coal-fueled power when sold to the state grid. In addition, straw power plants enjoy a series of preferential policies including tax exemption.

Biogas technology captures methane gases emitted from compostable materials and burns it to power a turbine to produce electricity. The waste that is usually disposed of in landfills is converted into liquid or gaseous fuels. By utilizing the resource from waste cellulosic or organic materials, biomass energy can be generated through the fermentation process.

**Our Strategies**

***Focus on Core Verticals to Increase Market Share in China***

We focus on waste-to-energy projects to specific verticals, such as steel, cement, nonferrous metal and coal mining. We plan to continue to focus on such core verticals and leverage our expertise to expand our market share. We intend to expand our waste-to-energy power generating capacity rapidly in order to meet the anticipated growth of demand in China's energy efficiency industrial applications and to gain market share. We continually identify potential customers in our core verticals. Based on our existing contracts and signed MOUs, we are targeting to increase our in-operation power generating capacity from 108MW in 2015and 183MW in 2016, respectively.

***Expand to New Verticals with Future High Growth Potentials***

We plan to pursue disciplined and targeted expansion strategies for verticals which we currently do not serve. We actively seek and explore opportunities to apply waste-to-energy technologies to new industries or segments with high growth potential, including glass, ceramics, magnesium metal and electrolytic aluminum industries. We have expanded into the biomass area, having completed our first biomass to power generation acquisition project. We believe that we have the flexibility to pursue acquisitions or develop new projects in-house through our existing research and development team. Our market entry strategy will focus on obtaining or developing new industrial applications in China as well as accesses to new market segments and customers, with the goal of using our early mover advantage to become the industry standard maker and maintain our leading position in the waste-to-energy industry.

***Increase Sales of Integrated Projects Targeting Large-Scale Customers***

Large-scale manufacturers have complex manufacturing processes, from multiple points of which we can collect waste pressure, heat or gas to generate electricity. In addition, we can also combine more than one power generating cycle to recycle the waste collected from such multi-point industrial processes, which results in improved overall

energy efficiency. For example, the CCPP system combines both gas and steam cycles - a gas turbine generator generates electricity and the waste heat from the gas turbine is used to make steam to generate additional electricity via a steam turbine. We are targeting mid- to large-scale customers with highly intensive energy consumption, sizeable power generating capacity and substantial project investment requirement, e.g. RMB 500 million/ $78 million or above, which can benefit from economies of scale. We believe offering large-scale integrated systems will increase overall energy efficiency and promote higher customer satisfaction and in return provide us an attractive internal rate of return and higher barrier to entry through the establishment of long-term operation contracts.

***Continually Enhance Research and Development Efforts***

We plan to devote substantial resources to research and development in order to enhance our waste-to-energy design and engineering capabilities. We anticipate that our in-house design and engineering team will provide additional competitive advantages, including flexibility to quickly design and evaluate new technologies or applications in response to changing market trends.

***Selectively Acquire Waste-to-Energy Power Plants***

While we have experienced substantial organic growth, we plan to pursue a disciplined acquisition strategy to accelerate our growth. Our strategy will focus on obtaining additional power generating capacity, research and development capabilities and access to new markets and customers.

**Our Business Models**

We have sold our products to our customers under two models: the BOT model and the operating lease model, although we emphasize the BOT model which we believe is more economically beneficial to us and to our customers.

***BOT Model***

We primarily engage in the "Build-Operate-Transfer" (the "BOT") model to provide waste-to-energy solutions to our customers:

*"Build"*

We work directly with customers for each of our waste-to-energy projects. Our working process starts with a team of engineers that assesses and analyzes the specific needs of the customer to establish the design layout, equipment procurement list and capital expenditure budget for the project. Our sales team works closely with our engineering staff to present and negotiate the model with the customer.

After the signing of a contract, we finance the entire capital expenditure budget ourselves and commence the construction and installation of the project. We do not manufacture the equipment and materials that are used in the construction of the waste-to-energy power generation facility. Rather, we incorporate standard power generating equipment into a fully integrated on-site waste energy recycling project for our customer. The construction and installation period ranges from three to 12 months subject to the project type, size and complexity.

We usually engage an EPC general contractor, who is experienced in power plant and waste energy recycling project construction, to take charge of equipment procurement, project construction and installation. Our team of eight to 10 engineers participates in and monitors the equipment purchase process; this team also oversees the construction and installation activities to ensure that they are completed on time and meet our rigorous standards and specifications.

*“Operate”*

After the project has been installed at the customer site and passed a series of stringent tests, we, currently, outsource the operation to a third-party vendor. The operation period ranges from 5 to 20 years subject to the terms of each contract.

During the operation period, the customer can purchase all the electricity at a below-market price. We collect energy-saving-based lease payments from the customer; the lease term is equivalent to the operation period, ranging from five to twenty years, and the payments are based on the sale by us as lessor to our customers as lessee of energy generated by the waste energy recycling project at below-market rates. The customer’s payments are based on a minimum operation schedule agreed upon by us with our customer, and are collateralized by assets of the customer and/or third party guarantees. To reduce risk, we offer leasing services across a wide variety of industries and only target larger manufacturers or state-owned enterprises. Operation in excess of the minimum schedule enables us to receive additional revenues from the excess energy generated and sold to the customer.

*“Transfer”*

Based on the specific terms for each project, we eventually transfer the waste energy recycling project to the customer at no cost or a nominal cost upon the completion of the operation/lease period.

*Why BOT*

Waste-to-energy projects are capital intensive, which requires the manufacturers to invest a considerable amount of cash to purchase equipment during the construction period. As a BOT service provider, we fund all contracted projects on our own or jointly with our customers; such financing arrangements can help our customers by removing or reducing the heavy capital expenditure burden required by specific projects, thereby allowing them to concentrate on their core business. While technologically mature in advanced countries, waste-to-energy projects are still new to most of China's industrial companies and require intensive technology or know-how with respect to energy recycling and power generation. It is time-consuming or not feasible for industrial manufacturers to equip themselves with adequate expertise and technicians. Our specific sector knowledge and rich project experience allow us to construct, operate and maintain the power plants efficiently and to respond to operational issues in a timely and cost-efficient manner.

In exchange for upfront capital investment, we require secured power generating capacity during the operation period and guaranteed attractive internal rates of return from each project. Our operation period ranges from 5 to 20 years, during which we are entitled to sell the recycled electricity to those customers at a predetermined rate. Such electricity sales are secured by long-term electricity production agreements with guarantees, which result in minimum annual payments. We employ a process of stringent and systematic internal scrutiny on new customer development so as to minimize operational and default risk; for some smaller or non-SOE businesses, we require property collateral, management or third party guarantees, and/or prepayment of three months. As such, our cash inflow schedule from each in-operation project is fixed and predictable providing clear financial visibility. Our payback period is generally two to three years, depending on the project size.

In our experience, this BOT model is well received by our existing and potential customers in China. The insufficient supply of BOT vendors to the market is wholly due to the funding limitations of most of the recycling energy solution providers. Not all of our competitors have the ability to access sufficient capital on a timely basis.

***Operating Lease Model***

In the past, we also recorded rental income from two separate one-year operating leases. Under the operating leases, we leased waste-energy systems and subleased the systems to a customer for a greater amount. We choose not to renew our lease agreements, and we do not generally expect any revenue in the future through such model. In 2016, however, the Company plans to put the one Chengli project and the two Tianyu projects under operating leases; these projects were under construction at the end of 2016.

**Contractor and Equipment Suppliers**

We generally conduct our project construction through an EPC general contractor. We select the EPC general contractor for each project through a bidding process; then we sign a contract with the selected contractor for that project. The general contractor may outsource parts of our project construction to subcontractors according to the complexity and economics of the project. The general contractor is responsible for purchasing equipment to satisfy the requirements of the project we design for our customer. We generally do not purchase equipment directly from the equipment suppliers, but our general contractors obtain our consent before selecting the equipment suppliers. Our engineering department is involved in the equipment supplier selection process together with our general contractors and makes sure our stringent standards and requirements have been appropriately applied in selection of the equipment. We currently have engaged Shaanxi Huaxin Energy Engineering Co., Ltd.for our projects under construction, and we also maintain relationships with many other quality general contractors in China, including Wuxi Guolian, CITIC Heavy Industries Co., Ltd., A-Power Energy Generation Systems, Ltd.

As mentioned above, we do not manufacture the equipment and materials that are used in the construction of our waste energy recycling projects. Rather, we incorporate standard power generating equipment into a fully integrated onsite system. The key equipment used in our projects are the boilers and turbine generators, which represent the majority of equipment cost for each project. Though we do not place the direct procurement orders, we believe we maintain good relationships with those power generation equipment suppliers, and these relationships help provide cost-effective equipment purchasing by the general contractor for our intended projects and ensure the timely completion of these projects. We have well-established business relationships with most of the suppliers from whom our general contractors procure equipment, including Hangzhou Boiler Plant, Beijing Zhongdian Electric Machinery, Chengdu Engine Group, Shanghai Electric Group, China Aviation Gas Turbine Co. Ltd and Xuji Electric. Therefore, we believe we have a strong position and support in equipment supply and installation, which benefits us, the general contractors and our customers.

**Main Customers**

Our customers are mainly mid- to large-size enterprises in China involving high energy-consuming businesses. Following our selection process described in the next paragraph, we conduct stringent evaluation procedures to identify and qualify potential customers and projects. To lower our investment and operational risk, we target companies with geographic or industry competitive advantages, with strong reputations and in good financial condition. Generally, our targets include steel and nonferrous metal mills with over 3 million tons of production capacity per year, cement plants with over 2 million tons of production capacity per year that utilize new-suspension-line process, and coking plants with over 600 tons production capacity per year. Our existing customers operate in Shanxi province, Shaan'xi province, Shandong province, Jiangsu province and the Inner Mongolia Autonomic Region in China.

**Marketing and Sales**

We market and sell our projects nationwide through our direct sales force of 4 employees based in Xi'an, China. Our marketing programs include industrial conferences, trade fairs, sales training, and trade publication advertising. Our sales and marketing group works closely with our research and development and engineering departments to coordinate our project development activities, project launches and ongoing demand and supply planning. We market our projects directly to the industrial manufacturers who can utilize our energy recovery projects in their manufacturing processes, including steel, cement, nonferrous metal, coal and petrochemical industries.

Our management team has long-standing relationships with our existing customers and those companies that we consider to be potential customers. We also maintain relationships with municipal governments, which often sponsor or subsidize potential customers that can utilize our projects.

**Geographic Distribution of Sales**

Sales outside the US accounted for 100% of revenue in 2016, 2015 and 2014.

**Seasonality**

For the most part, the Company's business and sales are not subject to any seasonality factors.

**Intellectual Property Rights**

***Service Marks***

We have applied for the service mark "TCH" in China, which will be used in all of our business operations. The USPTO has also approved CREG and our logo for the trademark in the US.

***Patents***

As of December 31, 2016, we owned patents: (i) A usage and design patent of High Temperature Flap Valve in China by Xi'an TCH transferred from Shanghai Bake Technology Development Co., Ltd. (Chinese Patent No. ZL 2006 2 0041958.6); and (ii) A usage and design patent of Compound Barrel Type Slag Cooler/Quencher in China by Xi'an TCH transferred from Shanghai Bake Technology Development Co., Ltd. (Chinese Patent No. ZL 2006 2 0047536.X).

***Licenses***

From time to time, we enter into license agreements with third parties under which we obtain or grant rights to patented or proprietary technology.

**Research and Development**

We believe that our research and development efforts are among the best in the waste heat, gas and pressure to energy industry, particularly with regards to practical usage and application. All of the individuals that comprise our research and development staff have more than 10 years of experience on heat powered energy, mechanical, furnace engineering or power generation engineering.

To develop new and practical solutions for our customers, our R&D team also has the support of our on-site and project engineers who provide feedback and numerous ideas to the R&D team from their daily experiences with installation and operation of various waste gas, heat or pressure to energy projects. Our cooperative relationship with the South China University of Technology School of Power and Electricity and Xi'an University of Architecture and Technology gives us access to the latest developments in energy and waste-to-energy technologies as well as technical support of the research and development teams of these universities on integrated utilization of waste heat, gas and pressure to energy. Amounts spent on our research and development in the year ended December 31, 2016 were not material and we invested approximately $0.28 million in research and development in fiscal year 2015.

**Government and Environmental Management System**

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

**Competition**

In the past, waste energy recycling projects have been installed mainly by the industrial plants themselves. These plants hire general contractors to purchase waste energy recycling equipment manufactured by third parties and with design support from government design institutes, which usually charge a one-time design fee, construct the projects on-site. Pressure has increased on Chinese producers to become more energy-efficient, but many mid-sized companies do not have the special technical expertise or the capital to install and operate such waste energy recycling projects. Many companies have begun to outsource these functions to third-party providers, creating an opportunity in a growing market.

We are a leading developer of industrial waste energy recycling projects in China. To our knowledge, we are the only non-state owned enterprise primarily using a BOT model to provide energy saving and recovery systems for various energy intensive industries, such as cement, steel and metallurgy industries. We face competition from an array of

market participants.

Our main competitors as third-party providers are state owned research institutes or their wholly owned construction companies; however, smaller private companies occasionally employ a BOT model to provide waste-to-energy systems. The state-owned enterprises include Equipment and System Engineer Co., Ltd. of Hangzhou Steam Turbine & Power Group (Hangzhou Turbine) and Energy Saving Development Co., Ltd of China National Material Group, Sinoma Development Co., Ltd. The private companies include China Senyuan Electronic Co., Ltd., Dalian East New Energy Development Co. Ltd.**,** Top Resource Conservation Engineering Co., Ltd. and Nanjing Kaisheng Kaineng Environmental Energy.

We believe that there is a larger market in the waste-to-energy industry in China for systems constructed on the "Engineering Procurement Construction" or "EPC" model in which customers purchase the services of a contractor to construct a system for the customer at the customer's expense. Service providers include Dalian East New Energy Development, Nanjing Kaisheng Cement Technology and Engineering Co., Ltd., Jiangxi Sifang Energy Co., Ltd., Beijing Century Benefits Co., Ltd., Beijing Shineng Zhongjin Energy Technology Co., Ltd., Kunming Sunwise Co., Ltd. and China Everbright International Ltd. We compete with EPC providers for waste-to-energy projects when potential customers are able to obtain external financing or have the necessary capital.

We believe that we offer advantages over our competitors in several ways:

- Our management team has over 20 years of industry experience and expertise;
- We have the capabilities to provide TRT, CHPG and WGPG systems, while our competitors usually concentrate on one type or another;
- We have the capabilities and experience in undertaking large scale projects; and
- We provide BOT or capital lease services to the customers, while our competitors usually use an EPC (engineering, procurement and construction) or turnkey contract model.

**Employees**

As of December 31, 2016, we had 37 employees:

| | |
|---|---|
| *Management:* | 6 *Employees* |
| *Administration:* | 11 *Employees* |
| *Marketing:* | 4 *Employees* |
| *Research & Development:* | 3 *Employees* |
| *Accounting & Finance:* | 6 *Employees* |
| *Project Officer:* | 7 *Employees* |

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

**Costs and Effects of Compliance with Environmental Laws**

There were many new laws, regulations, rules and notices regarding the environment and energy production adopted, promulgated and put into force during past years. The Chinese government is putting more stringent requirements and

urgency on reducing pollution and emissions and improving energy efficiency nationwide. Our products are designed and constructed to comply with the environmental laws and regulations of China. As our systems allow our customers to use waste heat and gases to create energy, we help reduce the overall environmental impact of our customers. Since our business focuses on recycling energy, the effect of the strengthening of environmental laws in China may be to increase demand for the products and services we offer and others like them.

**Available Information**

We file reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an Internet site at http://www.sec.gov that contains the reports, proxy and information statements, and other information filed electronically. Our website address is www.creg-cn.com. Please note that our website address is provided as an inactive textual reference only. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

**ITEM 1A. RISK FACTORS**

**Risks Related to our Common Stock**

***The market price for our common stock may be volatile***.

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

- actual or anticipated fluctuations in our quarterly operating results;
- announcements of new services by us or our competitors;
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- conditions in the energy recycling market;
- changes in the economic performance or market valuations of other companies involved in the same industry;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- failure to maintain compliance with NASDAQ listing rules;
- additions or departures of key personnel;
- potential litigation;
- conditions in the market; or
- relatively small size of shares of our common stock available for purchase.

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

adversely affect the market price of our common stock.

***Shareholders could experience substantial dilution***.

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

***We have no present intention to pay dividends***.

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

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

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

***We may be unable to maintain compliance with NASDAQ Marketplace Rules which could cause our common stock to be delisted from the NASDAQ Global Market. This could result in the lack of a market for our common stock, cause a decrease in the value of our common stock, and adversely affect our business, financial condition and results of operations.***

Under the NASDAQ Marketplace Rules our common stock must maintain a minimum price of $1.00 per share for continued inclusion on the NASDAQ Global Market. The per share price of our common stock has fluctuated significantly. We cannot guarantee that our stock price will remain at or above $1.00 per share and if the price again drops below $1.00 per share, the stock could become subject to delisting. If our common stock is delisted, trading of the stock will most likely take place on an over-the-counter market established for unlisted securities. An investor is likely to find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors may not buy or sell our common stock due to difficulty in accessing over-the-counter markets, or due to policies preventing them from trading in securities not listed on a national exchange or other reasons. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations by limiting our ability to attract and retain qualified executives and employees and limiting our ability to raise capital.

On June 19, 2015, the Company was notified by The NASDAQ Stock Market (the "NASDAQ") that the Company was not in compliance with the $1.00 minimum closing bid price requirement under the NASDAQ Listing Rules (the "Minimum Closing Bid Price") and the Company was afforded 180 calendar days, or until December 16, 2015, to regain compliance with the requirement of Minimum Closing Bid Price. The Company did not regain compliance with the minimum $1.00 bid price per share by December 16, 2015. On December 7, 2015, the Company transferred the listing of its securities from The NASDAQ Global Market to The Nasdaq Capital Market (the "Capital Market"). On December 17, 2015, the Company received a letter from NASDAQ indicating that NASDAQ determined that the Company is eligible for an additional 180 calendar day period, or until June 13, 2016 (the "Second Compliance Period"), to regain compliance. NASDAQ's determination was based on the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Capital Market with the exception of the bid price requirement, and the Company's written notice to NASDAQ of its intention to cure the deficiency during the Second Compliance Period by effecting a reverse stock split, if necessary.

On May 24, 2016, the Company filed with the Nevada Secretary of State's office a Certificate of Change, by which the Company authorized and approved a 1-for-10 reverse stock split of the Company's authorized shares of common stock from 200,000,000 shares to 20,000,000 shares, accompanied by a corresponding decrease in the Company's issued and outstanding shares of common stock (the "Reverse Stock Split"). The common stock continues to have a par value of $0.001. The Certificate of Change became effective on May 25, 2016, and the Reverse Stock Split became effective for trading purposes at the market opening on May 26, 2016, at which time the Company's common stock began trading on the Nasdaq Capital Market on a split-adjusted basis under the symbol "CREG." The CUSIP number for the Company's common stock post-Reverse Stock Split is 168913200.

**Risks Related to Our Business Operations**

***In recent years, the economy of China has experienced unprecedented growth. As a result of the global financial crisis, this growth has slowed in the last year, and if the growth of the economy continues to slow or if the economy contracts, our financial condition may be materially and adversely affected.***

The rapid growth of the PRC economy has historically resulted in widespread growth opportunities in industries across China. As a result of the global financial crisis and the inability of enterprises to gain comparable access to the same amounts of capital available in past years, there may be an adverse effect on the business climate and growth of private enterprise in the PRC. An economic slowdown could have an adverse effect on our financial condition. Further, if economic growth slows, and if, in conjunction, inflation is allowed to proceed unchecked, our costs would likely increase, and there can be no assurance that we would be able to increase our prices to an extent that would offset the increase in our expenses.

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

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

***Our revenue depends on gaining new customers and project contracts and purchase commitments from customers.***

Currently and historically, we have only had a limited number of projects in process at any time. Thus, our revenues have historically resulted, and are expected to continue in the immediate future to result, primarily from the sale and operation of our waste energy recycling projects that, once completed, typically produce ongoing revenues from energy production. Customers may change or delay orders for any number of reasons, such as force majeure or seasonality factors that are unrelated to us. As a result, in order to maintain and expand our business, we must continue to develop and obtain new orders. However, it is difficult to predict whether and when we will receive such orders or project contracts due to the lengthy process, which may be affected by factors that we do not control, such as market and economic conditions, financing arrangements, commodity prices, environmental issues and government approvals.

***We may require additional funds to run our business and may be required to raise these funds on terms which are not favorable to us or which reduce our stock price.***

We may need to complete additional equity or debt financings to fund our operations. Our inability to obtain additional financing could adversely affect our business. Financings may not be available at all or on terms favorable to us. In addition, these financings, if completed, may not meet our capital needs and could result in substantial dilution to our stockholders.

***Changes in the economic and credit environment could have an adverse effect on demand for our projects, which would in turn have a negative impact on our results of operations, our cash flows, our financial condition, our ability to borrow and our stock price.***

Since late 2008 and continuing through 2016, global market and economic conditions have been disrupted and volatile. Concerns over increased energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and a declining residential real estate market in the US contributed to this increased volatility. These factors, combined with declining business and consumer confidence and increased unemployment, precipitated a global recession. It is difficult to predict how long the current economic conditions will persist or whether they will deteriorate further. As a result, these conditions could adversely affect our financial condition and results of operations.

The global economic crisis has also resulted in tighter credit conditions, which may lead to higher financing costs. Although poor market conditions can act as an incentive for our customers to reduce their energy costs, if the global economic crisis persists and has material adverse effects on our customers' business, our customers may delay or cancel their plan of installing waste energy recycling projects.

***Decreases in the price of coal, oil and gas or a decline in popular support for "green" energy technologies could reduce demand for our waste energy recycling projects, which could materially harm our ability to grow our business.***

Higher coal, oil and gas prices provide incentives for customers to invest in "green" energy technologies such as our waste energy recycling projects that reduce their need for fossil fuels. Conversely, lower coal, oil and gas prices would tend to reduce the incentive for customers to invest in capital equipment to produce electric power or seek out alternative energy sources. Demand for our projects and services depends in part on the current and future commodity prices of coal, oil and gas. We have no control over the current or future prices of these commodities.

In addition, popular support by governments, corporations and individuals for “green” energy technologies may change. Because of the ongoing development of, and the possible change in support for, “green” energy technologies we cannot assure you that negative changes to this industry will not occur. Changes in government or popular support for “green” energy technologies could have a material adverse effect on our business, prospects and results of operations.

***Changes in the growth of demand for or pricing of electricity could reduce demand for our waste energy recycling projects, which could materially harm our ability to grow our business.***

Our revenues are dependent on the ability to provide savings on energy costs for our clients. According to the National Bureau of Statistics of the PRC, 2016 annual electricity consumption grew by 5% year on year, compared with 0.5% growth in 2015, which rebounded up 4.5% and hit a three-year high. By the end of 2016, the national power generation capacity reached 1.65 billion kilowatts, with 8.2% year-on-year growth. Clean energy power generation increased significantly in 2016. The China Electricity Council has forecasted that the rate of growth in China’s electricity demand will continue to increase in 2017 as the growth in electricity consumption increases due to the continued development of the Chinese economy. However, such growth is unpredictable and depends on general economic conditions and consumer demand, both of which are beyond our control. Furthermore, pricing of electricity in the PRC is set in advance by the state or local electricity administration and may be artificially depressed by governmental regulation or influenced by supply and demand imbalances. If these changes reduce the cost of electricity from traditional sources of supply, the demand for our waste energy recycling projects could be reduced, and therefore, could materially harm our ability to grow our business.

***Our insurance may not cover all liabilities and damages***.

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

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

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

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

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

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

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

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

***Our use of a "Build-Operate-Transfer" model requires us to invest substantial financial and technical resources in a project before we deliver a waste energy recycling project.***

We use a "Build-Operate-Transfer" model to provide our waste energy recycling projects to our customers. This process requires us to provide significant capital at the beginning of each project. The design, construction and completion of a waste energy recycling project is highly technical and the time necessary to complete a project can take three to 12 months without any delays, including delays outside our control such as from the result of customer's operations, and we incur significant expenses as part of this process. Our initial cash outlay and the length of the delivery time makes us particularly vulnerable to the loss of a significant customer or contract because we may be unable to quickly replace the lost cash flow.

***Our BOT model and the accounting for our projects as sales-type leases could result in a difference between our revenue recognition and our cash flows.***

While we recognize a large portion of the revenue from each project when it goes on-line, all of the cash flow from the project is received in even monthly payments across the term of the lease. Although our revenues may be high, the initial cash outlay required for each project is substantial and even with the recovery of this cost in the early years of each lease, we may need to raise additional capital resulting in a dilution in your holdings. This discrepancy between revenue recognition and cash flow could also contribute to volatility in our stock price.

***There is collection risk associated with payments to be received over the terms of agreements with customers of our waste energy recycling projects.***

We are dependent in part on the viability of our customers for collections under our BOT model. Customers may experience financial difficulties that could cause them to be unable to fulfill their contractual payment obligations to

us. Although our customers usually provide collateral or other guarantees to secure their obligations to provide the minimum electricity income from the waste energy recycling projects, there is no guarantee that such collateral will be sufficient to meet all obligations under the respective contract. As a result, our future revenues and cash flows could be adversely affected.

***We may not be able to assemble and deliver our waste energy recycling projects as quickly as customers may require which could cause us to lose sales and could harm our reputation.***

We may not be able to assemble our waste energy recycling projects and deliver them to our customers at the times they require. Manufacturing delays and interruptions can occur for many reasons, including, but not limited to:

- the failure of a supplier to deliver needed components on a timely basis or of acceptable quality;
- equipment failures;
- personnel shortage;
- labor disputes; or
- transportation disruptions.

Assembly of our waste energy recycling projects is complex. If we fail to assemble and deliver our waste energy recycling projects in a timely fashion, our reputation may be harmed, we may jeopardize existing orders and lose potential future sales, and we may be forced to pay penalties to our customers.

***We operate in an emerging competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected.***

Currently, the PRC waste energy recycling market is fragmented but competitive. As the industry evolves, we anticipate that competition will increase. We currently face competition primarily from companies that focus on one type of waste energy recycling project or one industry in the waste energy recycling market, some of which may have more expertise in their area of focus than we do. We also compete against companies that have substantial competitive advantage because of longer operating histories and larger marketing budgets, as well as substantially greater financial and other resources than us. Our largest potential clients may choose to build their own systems. National or global competitors could enter the market with more substantial financial and workforce resources, stronger existing customer relationships, and greater name recognition or could choose to target medium to small companies in our traditional markets. Competitors could focus their substantial resources on developing a more attractive solution set than ours or products with technologies that reduce demand for energy beyond what our solutions can provide and at cheaper prices. Competition also places downward pressure on our contract prices and profit margins, which presents us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits.

***If we infringe the rights of third parties, we could be prevented from selling products, forced to pay damages and compelled to defend against litigation.***

If our waste energy recycling projects, methods, processes and other technologies infringe proprietary rights of other parties, we may have to obtain licenses (which may not be available on commercially reasonable terms, if at all), redesign our waste energy recycling projects or processes, stop using the subject matter claimed in the asserted patents, pay damages, or defend litigation or administrative proceedings, which may be costly whether we win or lose. All of the above could result in a substantial diversion of valuable management resources and we could incur substantial costs.

We believe we have taken reasonable steps, including prior patent searches, to ensure we have the freedom to operate under our intellectual property rights, and that our development and commercialization efforts can be carried out as planned without infringing others' proprietary rights. However, a third-party patent may have been filed or will be filed that may contain subject matter of relevance to our development, causing a third-party patent holder to claim infringement. Resolution of such issues sometimes results in lengthy and costly legal proceedings, the outcome of which we cannot predict accurately.

***We may not be able to adequately respond to changes in technology affecting the waste energy recycling industry.***

Our industry could experience rapid technological changes and new product introductions. Current competitors or new market entrants could introduce new or enhanced products with features which render the systems used in our projects obsolete or less marketable. Our future success will depend, in part, on our ability to respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in effectively using new technologies, developing new systems or enhancing our existing systems and technology on a timely basis. Our new technologies or enhancements may not achieve market acceptance. Our pursuit of new technologies may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept. Finally, we may not succeed in adapting our projects to new technologies as they emerge.

***We are dependent on third parties for manufacturing key components and delays by third parties may cause delays in assembly and increased costs to us*.**

We rely upon third parties for the manufacture of key components. Delays and difficulties in the manufacturing of our waste energy recycling projects could substantially harm our revenues. There are limited sources of supply for some key waste energy recycling project components. Business disruptions, financial difficulties of the manufacturers or suppliers of these components, or raw material shortages could increase our costs, reduce the availability of these components or delay our delivery of projects to customers. To date, we have been able to obtain adequate supplies of these key components. If we are unable to obtain a sufficient supply of required components, we could experience significant delays in construction, which could result in the loss of orders and customers, and could materially and adversely affect our business, financial condition and results of operations. If the cost of components increases, we may not be able to pass on price increases to our customers if we are to remain competitively priced. This would reduce profit, which in turn would reduce the value of your investment.

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

***Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect the demand for our projects and our business.***

Currently, all of our operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the amount of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the PRC economy could result in decreased capital expenditure by energy users, which in turn could reduce demand for our products. In addition, the PRC government, which regulates the power industry in China, has adopted laws related to renewable energy, and has adopted policies for the accelerated

development of renewable energy as part of a Development Plan promulgated on August 31, 2007.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of energy investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our business and prospects.

***Restrictions under PRC law on our subsidiaries' ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our business.***

We conduct all of our business through our consolidated subsidiaries and affiliated companies operating in the PRC. We rely on dividends paid by these consolidated subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our stockholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in the PRC is subject to limitations imposed by government regulations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC, subject to certain statutory procedural requirements and these may not be calculated in the same manner as US GAAP. In addition, each of our subsidiaries in China is required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.***

The value of the Renminbi ("RMB") against the US Dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including US Dollars, has historically been set by the People's Bank of China. On March 17, 2014, the PRC government changed its policy of pegging the value of the RMB to the US Dollar. Under the new policy, the RMB is permitted to fluctuate within a band against a basket of certain foreign currencies, determined by the Bank of China, against which it can rise or fall by as much as 2% each day. Since the adoption of this new policy, the value of the RMB against the US Dollar has fluctuated on a daily basis within narrow ranges, but overall has strengthened against the US Dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the RMB against the US Dollar. Appreciation or depreciation in the value of the RMB relative to the US Dollar would affect our financial results reported in US Dollar terms even if there is no underlying change in our business or results of operations. In addition, if we decide to convert our RMB into US Dollars for the purpose of making payments for dividends on our common stock or for other business purposes, appreciation of the US Dollar against the RMB would have a negative effect on the US Dollar amount available to us.

***The PRC currency is not a freely convertible currency, which could limit our ability to obtain sufficient foreign currency to support our business operations in the future. In addition, changes in foreign exchange regulations in the PRC may affect our ability to pay dividends in foreign currency or conduct other foreign exchange business.***

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenues in RMB, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where RMB are to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

***There are significant uncertainties under the Enterprise Income Tax Law regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries and tax on any dividends we pay to our non-PRC stockholders.***

The Enterprise Income Tax Law, also known as the EIT Law, provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered as a "tax-resident enterprise" and are generally subject to the uniform 25.0% enterprise income tax rate on global income. Under the implementation regulations to EIT Law, "de facto management body" refers to a managing body that in practice exercises overall management control over the production and business, personnel, accounting and assets of an enterprise. In addition, on April 22, 2009, the State Administration of Taxation of the PRC issued the *Notice on the Issues Regarding Recognition of Overseas Incorporated Enterprises that are Domestically Controlled as PRC Resident Enterprises Based on the De Facto Management Body Criteria*, which was retroactively effective as of January 1, 2008. This notice provides that an overseas incorporated enterprise that is controlled domestically will be recognized as a "tax-resident enterprise" if it satisfies all of the following conditions: (i) the senior management responsible for daily production/business operations are primarily located in the PRC, and the location(s) where such senior management execute their responsibilities are primarily in the PRC; (ii) strategic financial and personnel decisions are made or approved by organizations or personnel located in the PRC; (iii) major properties, accounting ledgers, company seals and minutes of board meetings and stockholder meetings, etc, are maintained in the PRC; and (iv) 50.0% or more of the board members with voting rights or senior management habitually reside in the PRC.

In addition, dividends paid by us to our non-PRC stockholders as well as gains realized by such stockholders from the sale or transfer of our stock may be subject to a PRC tax under the EIT Law, and we may be required to withhold PRC tax on dividends paid to our non-PRC stockholders.

***PRC regulation of loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating companies, which could materially and adversely affect our liquidity and ability to fund and expand our business.***

As an offshore holding company of PRC operating companies, we may make loans or additional capital contributions to our PRC operating companies. Any loans to our PRC operating companies are subject to PRC regulations. For example, loans to our operating companies in China to finance their activities may not exceed statutory limits and must be registered with SAFE. If we decide to make capital contributions to our operating entities in the PRC, the PRC Ministry of Commerce, or MOFCOM, (or MOFCOM's local counterpart, depending on the amount involved) must approve these capital contributions. We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to any such capital contributions. If we fail to receive such approvals, our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

***We may face PRC regulatory risks relating to our equity incentive plan.***

On March 28, 2007, the SAFE promulgated a notice requiring PRC individuals who are granted stock options and other types of stock-based awards by an overseas publicly-listed company to obtain approval from the local SAFE branch through an agent of the overseas publicly-listed company (generally its PRC subsidiary or a financial institution).

We urged our PRC management personnel, directors, employees and consultants who were granted stock options under our 2007 Plan to register them with the local SAFE pursuant to the said regulation. However, we cannot ensure that each of these individuals have carried out all of the required registration procedures.

If we, or any of these persons, fail to comply with the relevant rules or requirements, we may be subject to penalties, and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries' dividend payment to us or borrowing foreign currency loans, all of which may adversely affect our business and financial condition.

***The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.***

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

***Uncertainties with respect to the PRC legal system could adversely affect us and we may have limited legal recourse under PRC law if disputes arise under our contracts with third parties.***

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China in particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after violation.

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent others from violating our rights. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

***We must comply with the Foreign Corrupt Practices Act and Chinese anti-corruption laws.***

We are required to comply with the United States Foreign Corrupt Practices Act, or FCPA, which prohibits US companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. The PRC also strictly prohibits bribery of government officials. Certain of our suppliers are owned by the PRC government and our dealings with them are likely to be considered to be with government officials for these purposes. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in China. It is our policy to prohibit our employees and to discourage our agents, representatives and consultants from engaging in such practices. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Our employees, agents, representatives and consultants may not always be subject to our control. If any of them violates FCPA or other anti-corruption law, we might be held responsible. We could suffer severe penalties in that event. In addition, the US government may seek to hold us liable for successor liability FCPA violations committed by companies in which we invest or which we acquire.

***We may have difficulty maintaining adequate management, legal and financial controls in the PRC.***

The PRC historically has been deficient in western style management and financial reporting concepts and practices, as well as in modern banking, and other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, and especially since we are a publicly listed company in the US and subject to regulation as such, we may experience difficulty in maintaining management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet western standards. We may have difficulty establishing adequate management, legal and financial controls in the PRC. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, and other applicable laws, rules and regulations. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business and the market price of our stock.

***If we fail to maintain an effective system of internal control over financial reporting, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected and investor confidence and the market price of our ordinary shares may be adversely impacted.***

As directed by SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports. Our management may conclude that our internal controls over our financial reporting are not effective, which could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could adversely impact the market price of our common stock.

***Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we conduct substantially all of our operations in the PRC and because the majority of our directors and officers reside outside of the United States.***

We are a Nevada corporation but nearly all of our assets are located outside of the US. Most of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of the PRC. A substantial portion of the assets of these persons is located outside the US. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in US courts judgments on the civil liability provisions of the US federal securities laws against us and our officers and directors. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of US courts. The recognition and enforcement of foreign judgments are provided for under the *PRC Civil Procedures Law*. Courts in the PRC may recognize and enforce foreign judgments in accordance with the requirements of the *PRC Civil Procedures Law* based on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the *PRC Civil Procedures Law*, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the US.

***A failure by our stockholders or beneficial owners who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.***

On October 21, 2005, SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Offshore Special Purpose Vehicles, or State Administration of Foreign Exchange of China ("SAFE") Circular 75. SAFE Circular 75 states that PRC residents

(including both legal persons and natural persons) must register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a roundtrip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the PRC residents. In addition, such PRC residents must update their SAFE registrations when the offshore SPV undergoes material events relating to increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investments, external guarantees, or other material events that do not involve roundtrip investments. To further clarify the implementation of SAFE Circular 75, the General Affairs Department of SAFE issued SAFE Circular 106 on May 29, 2007. Under SAFE Circular 106, PRC subsidiaries of an offshore company governed by SAFE Circular 75 are required to coordinate and supervise the filing of SAFE registrations in a timely manner by the offshore holding company's shareholders who are PRC residents. If these shareholders fail to comply, the PRC subsidiaries are required to report to the local SAFE authorities. If our shareholders who are PRC residents do not complete their registration with the local SAFE authorities, our PRC subsidiaries will be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries.

On July 14, 2014, SAFE promulgated the Circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Return Investment by Domestic Residents Utilizing Special Purpose Vehicles (Circular 37). Replacing an earlier circular published by SAFE in 2005 (Circular 75), Circular 37 further simplifies the registration process for Chinese residents seeking the round-trip investment transactions where Chinese companies (Domestic Entities) are re-organized to create an offshore holding company (the SPV) that will control the Domestic Entities and seek offshore financing. Also, for the first time overseas investments by Chinese individuals are formally legalized under Circular 37.

We are committed to complying, and to ensuring that our shareholders, who are PRC residents, comply with the SAFE Circular 37 requirements. We believe that all of our PRC resident shareholders and beneficial owners have completed their required registrations with SAFE, or are otherwise in the process of registering. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC residents, and we may not always be able to compel our beneficial owners to comply with the SAFE Circular 75 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 75 or other related regulations. Failure by any such shareholders or beneficial owners to comply with SAFE Circular 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

***PRC regulations involve complex procedures for acquisitions conducted by foreign investors that could make our restructuring or an offering subject to government approval.***

Pursuant to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors ("M&A Rule"), effective as of September 8, 2006 and revised as of June 22, 2009, additional procedures and requirements were established that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies and special anti-monopoly submissions for parties meeting certain reporting thresholds.

The M&A Rules require offshore companies formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals to obtain the approval of MOFCOM prior to a cross-border share swap and the CSRC prior to the public listing of their securities on an overseas stock exchange through share swap. On September 21, 2006, pursuant to the M&A Rule and other PRC Laws, the CSRC published on its official website relevant guidance with respect to the listing and trading of PRC domestic enterprises' securities on overseas stock exchanges ("Related Clarifications"), including a list of application materials regarding the listing on overseas stock exchange by special purpose vehicles, however, the CSRC currently has not issued any definitive rule

concerning whether an offering, is subject to the M&A Rule and Related Clarifications.

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There are substantial uncertainties regarding the interpretation and application of the above rules, and MOFCOM and CSRC have yet to promulgate any written provisions or formally to declare or state whether the overseas listing of a PRC related company similar to us will be subject to approvals from MOFCOM and CSRC with respect to any offering or a failure to maintain an offering. If MOFCOM and CSRC approvals are required in connection with our previous restructuring, our failure to obtain or delay in obtaining such approval could result in penalties imposed by MOFCOM, CSRC and other PRC regulatory agencies. These penalties could include fines and penalties on our operations in China, restriction or limitation on remitting dividends outside of China, and other forms of sanctions that may cause a material and adverse effect on our business, operations and financial conditions.

Notwithstanding those provisions, we are advised by our PRC counsel, Shaanxi Yan Tan Law Firm, MOFCOM and CSRC approvals are not required in the context of our previous restructuring, because our previous restructuring does not constitute a cross-border share swap contemplated by the M&A Rule. However, we cannot assure you that the relevant PRC government agencies, including MOFCOM and CSRC, would reach the same conclusion, and we still cannot rule out the possibility that MOFCOM and CSRC may deem our listing structure as circumventing the M&A Rule and Related Clarifications, in particular in consideration of the fact that our restructuring was completed through several steps. Please refer to the Company History section about our restructuring.

***PRC regulations also involve complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.***

We may grow our business in part by acquiring other companies in the PRC. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***Our labor costs may increase due to the implementation of the new PRC Labor Contract Law.***

The PRC Labor Contract Law was adopted by the Standing Committee of the National People's Congress of PRC in June 2007 and became effective on January 1, 2008. The Implementation Rules of the PRC Labor Contract Law were passed by the PRC State Council in September 2008 and became effective that same month. The implementation of the new law and its Implementation Rules, particularly the following provisions, may increase our labor costs: (a) an employer shall make monetary compensation, which shall be based on the number of an employee's working years with the employer at the rate of one month's wage for each year, to the employee upon termination of an employment contract with certain exceptions (for example, in circumstances where the term of a fixed-term employment contract expires and the employee does not agree to renew the contract even though the conditions offered by the employer are the same as or better than those stipulated in the current contract); (b) the wages of an employee who is on probation may not be less than the lowest wage level for the same job with the employer or less than 80% of the wage agreed

upon in the employment contract, and may not be less than the local minimum wage rate; (c) if an employee has been working for the employer for a consecutive period of not less than 10 years, or if a fixed-term employment contract with an employee was entered into on two consecutive occasions, generally the employer should enter into an open-ended employment contract with such employee, unless the employee requests a fixed-term employment contract; (d) if an employer fails, in violation of the related provisions, to enter into an open-ended employment contract with an employee, it shall in each month pay to the employee twice his wage, starting from the date on which an open-ended employment contract should have been entered into; (e) if an employer fails to enter into a written employment contract with an employee more than one month but less than one year after the date on which it started employing him, it shall in each month pay to the employee twice his wage; and (f) if an employer hires an employee whose employment contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, the later hiring employer shall be jointly and severally liable with the employee for the compensation for such loss. Our labor costs may increase due to the implementation of the new PRC Labor Contract Law and the Implementation Rules of the PRC Labor Contract Law and our business and results of operations may be materially and adversely affected.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

We currently lease two office spaces, one in Xi'an and one in Shanghai. On February 1, 2010, we expanded and moved our leased office space in Xi'an within the Chang'an Metropolis Center where we previously occupied part of a floor in Tower B. Our leased space in Xi-an is now the 12$^{th}$ Floor of Tower A at Chang'an Metropolis Center, No. 88, Nanguanzheng Street, Xi'an, PRC. Our leased office space in Shanghai is located at Room 519, Floor 5, No. 277 Fu Te North Road, Pilot Free Trade Zone, Shanghai, PRC. The average monthly rent for our office locations was $31,290 in 2015 and $20,851 in 2016.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not currently a party to any material legal proceedings, and to our knowledge none is threatened. There can be no assurance that future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

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

Our common stock is currently traded on the NASDAQ Capital Market under the symbol "CREG." On March 28, 2017, the last reported sales price for our common stock was $1.54 per share. As of March 28, 2017, there were 8,310,198 shares of our common stock outstanding held by approximately 2,727 shareholders of record.

On May 24, 2016, the Company filed a Certificate of Change with the Secretary of State of Nevada with an effective date of May 25, 2016, at which time the Company affected a 1-for-10 reverse stock split of the Company's authorized shares of common stock, par value $0.001 (the "Common Stock"), accompanied by a corresponding decrease in the Company's issued and outstanding shares of Common Stock (the "Reverse Stock Split"). The Company rounded up to the next full share of the Company's Common Stock any fractional shares resulting from the Reverse Stock Split. All share prices and share amounts described herein give effect to the Reverse Stock Split, and the Reverse Stock Split was retroactively stated for the periods covered by the financial statements included herein.

The table below provides information with respect to the Company's quarterly stock prices during 2016 and 2015:

| | ***2016*** | | | | ***2015*** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ***4Q*** | ***3Q*** | ***2Q*** | ***1Q*** | ***4Q*** | ***3Q*** | ***2Q*** | ***1Q*** | ***4Q*** |
| High | $1.89 | $2.24 | $3.10 | $0.37 | $.054 | $0.89 | $1.16 | $1.32 | High |
| Low | $1.41 | $1.73 | $2.00 | $0.25 | $0.25 | $0.45 | $0.75 | $0.69 | Low |

***Dividend Policy***

We did not pay any cash dividends on our common stock in 2016 or 2015. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business.

***Recent Sales of Unregistered Securities***

None.

***Issuer Purchases of Equity Securities***

There were no common stock purchases by the Company during 2016**.**

***Equity Compensation Plan Information***

Information about our equity compensation plans at December 31, 2016 that were either approved or not approved by our shareholders is as follows:

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans |
|---|---|---|---|
| Equity compensation plans approved by security holders | 4,000 | $ 10.20 | 1,242,261 |
| Equity compensation plans not approved by security holders | - | $ - | - |
| Total | 4,000 | $ 10.20 | 1,242,261 |

**ITEM 6. SELECTED FINANCIAL DATA.**

Not applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**Note Regarding Forward-Looking Statements**

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

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

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

**OVERVIEW OF BUSINESS BACKGROUND**

China Recycling Energy Corporation (the “Company” or “CREG”) was incorporated on May 8, 1980 as Boulder Brewing Company under the laws of the State of Colorado. On September 6, 2001, the Company changed its state of incorporation to the State of Nevada. In 2004, the Company changed its name from Boulder Brewing Company to China Digital Wireless, Inc. and on March 8, 2007, the Company again changed its name from China Digital Wireless, Inc. to its current name, China Recycling Energy Corporation. The Company, through its subsidiaries, sells and leases energy saving systems and equipment to its customers in the People’s Republic of China (“PRC”). Typically, the Company transfers ownership of the waste energy recycling power generating projects to its customers at the end of each sales-type lease and provides financing to its customers for the cost of the projects as described below.

*Our Subsidiaries*

Our business is primarily conducted through our wholly-owned subsidiary, Sifang Holdings and Shanghai Yinghua Financial Leasing Co., Ltd ("Yinghua"); its wholly-owned subsidiaries, Huahong New Energy Technology Co., Ltd. ("Huahong") and Shanghai TCH; Shanghai TCH's wholly-owned subsidiaries, Xi'an TCH Energy Technology Company, Ltd ("Xi'an TCH"), Xi'an TCH's wholly-owned subsidiary Erdos TCH Energy Saving Development Co., Ltd ("Erdos TCH") and Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun"); and Xi'an TCH's 90% owned subsidiary Xi'an Zhonghong New Energy Technology Co., Ltd. Zhonghong is engaged to provide energy saving solutions and services, including constructing, selling and leasing energy saving systems and equipment to customers, project investment, investment management, economic information consulting, technical services, financial leasing, purchase of financial leasing assets, disposal and repair of financial leasing assets, consulting and ensuring of financial leasing transactions.

The Company's organizational chart is as follows:

**CREG Legal**

**Structure**

*Shanghai TCH and its Subsidiaries*

Shanghai TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004 and has a registered capital of $29.80 million. Xi'an TCH was incorporated in Xi'an, Shaanxi Province under the laws of the PRC on November 8, 2007. In February 2009, Huahong was incorporated in Xi'an, Shaanxi province. Erdos TCH was incorporated in April 2009 in Erdos, Inner Mongolia Autonomous Region. On July 19, 2013, Xi'an TCH formed a new company called Xi'an Zhonghong New Energy Technology Co., Ltd ("Zhonghong"). Xi'an TCH owns 90% of Zhonghong, which provides energy saving solutions and services, including constructing, selling and leasing energy saving systems and equipment to customers.

As of December 31, 2016, Shanghai TCH, through its subsidiaries, had sales or sales-type leases with the following parties: (i) Erdos (for five recycling waste heat power generating systems); (ii) Pucheng (for two biomass power generation ("BMPG") systems); and (iii) Shenqiu (for two BMPG systems).

*The Fund Management Company and the HYREF Fund*

On June 25, 2013, Xi'an TCH and Hongyuan Huifu Venture Capital Co. Ltd ("Hongyuan Huifu") jointly established Hongyuan Recycling Energy Investment Management Beijing Co., Ltd (the "Fund Management Company") with registered capital of RMB 10 million. Xi'an TCH made an initial capital contribution of RMB 4 million ($650,000) and has a 40% ownership interest in the Fund Management Company. With respect to the Fund Management Company, voting rights and dividend rights are allocated 80% and 20% between Hongyuan Huifu and Xi'an TCH, respectively.

The Fund Management Company serves as the general partner of Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF Fund"), a limited liability partnership established on July 18, 2013 in Beijing. The Fund Management Company made an initial capital contribution of RMB 5 million ($830,000) to the HYREF Fund. An initial total amount of RMB 460 million ($75 million) has been fully subscribed by all partners for the HYREF Fund. The HYREF Fund has three limited partners: (1) China Orient Asset Management Co., Ltd., which made an initial capital contribution of RMB 280 million ($46.67 million) to the HYREF Fund and is a preferred limited partner; (2) Hongyuan Huifu, which made an initial capital contribution of RMB 100 million ($16.67 million) to the HYREF Fund and is an ordinary limited partner; and (3) the Company's wholly-owned subsidiary, Xi'an TCH, which made an initial capital contribution of RMB 75 million ($12.5 million) to the HYREF Fund and is a secondary limited partner. The term of the HYREF Fund's partnership is six years from the date of its establishment, expiring on July 18, 2019. The current term is four years from the August 2016 date of contribution for the preferred limited partner, or four years from the date of contribution for the ordinary limited partner. The total size of the HYREF Fund is RMB 460 million ($75 million). The HYREF Fund was formed for the purpose of investing in Xi'an Zhonghong New Energy Technology Co., Ltd., a 90% owned subsidiary of Xi'an TCH, for the construction of two coke dry quenching ("CDQ")

waste heat power generation ("WHPG") stations with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu") and one CDQ WHPG station with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli").

*Erdos TCH – Joint Venture*

On April 14, 2009, the Company formed Erdos TCH as a joint venture (the "JV") with Erdos Metallurgy Co., Ltd. ("Erdos") to recycle waste heat from Erdos' metal refining plants to generate power and steam to be sold back to Erdos. The JV has a term of 20 years with a total investment for the project estimated at $79 million (RMB 500 million) and an initial investment of $17.55 million (RMB 120 million). Erdos contributed 7% of the total investment for the project, and Xi'an TCH contributed 93%. According to Xi'an TCH and Erdos' agreement on profit distribution, Xi'an TCH and Erdos will receive 80% and 20%, respectively, of the profit from the JV until Xi'an TCH receives the complete return of its investment. Xi'an TCH and Erdos will then receive 60% and 40%, respectively, of the profit from the JV. On June 15, 2013, Xi'an TCH and Erdos entered into a share transfer agreement, pursuant to which Erdos transferred and sold its 7% ownership interest in the JV to Xi'an TCH for $1.29 million (RMB 8 million), plus certain accumulated profits as described below. Xi'an TCH paid the $1.29 million in July 2013 and, as a result, became the sole stockholder of the JV. In addition, Xi'an TCH is required to pay Erdos accumulated profits from inception up to June 30, 2013 in accordance with the supplementary agreement entered on August 6, 2013. In August 2013, Xi'an TCH paid 20% of the accumulated profit (calculated under PRC GAAP) of $226,000 to Erdos. The JV currently has two power generation systems in Phase I with a total of 18MW power capacity, and three power generation systems in Phase II with a total of 27MW power capacity.

With the current economic conditions in China, the government limited and reduced production in the iron and steel industry, which has resulted in a sharp decrease of Erdos Metallurgy Co., Ltd's production of ferrosilicon, its revenue and cash flows, and has made it difficult for Erdos to make the monthly minimum lease payment.

After considering the challenging economic conditions facing Erdos, and in order to maintain the long-term cooperative relationship between the parties, which we believe will continue to produce long-term benefits, on April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016. Under the supplemental agreement, Erdos TCH cancelled monthly minimum lease payments from Erdos, and agreed to charge Erdos based on actual electricity sold at RMB 0.30 / Kwh, which such price will be adjusted annually based on market condition.

The Company evaluated the modified terms for payments based on actual electricity sold as minimum lease payments as defined in ASC 840-10-25-4, since lease payments that depend on a factor directly related to the future use of the leased property are contingent rentals and, accordingly, are excluded from minimum lease payments in their entirety. The Company wrote off the net investment receivables of these leases at the lease modification date.

*Shanxi Datong Coal Group Power Generation Projects*

In February 2011, Xi'an TCH entered into an agreement with Shanxi Datong Coal Group Steel Co., Ltd ("Shanxi Datong") to recycle gas and steam from groups of blast-furnaces and converters at Shanxi Datong's metal refining plants to generate power and pursuant to which Xi'an TCH agreed to install two 3MW BPRT systems, and one 15MW WGPG system with a total of 21MW power capacity for an estimated total investment of $28.6 million (RMB 180 million). In June 2013, the two 3MW BPRT power generation systems were completed. The lease term was for 30 years, during which time Shanxi Datong would pay a service fee to Xi'an TCH. The service fee was based on an average of 8,000 electricity-generating hours per year and $0.05 (RMB 0.33) per kilowatt hour ("kWh") for the first five years from the completion of each power generation station. For each of the leases, at the 6th, 11th and 21st year anniversary of the date of the lease, the rates will change to RMB 0.3 kWh, 0.27 kWh and 0.25 kWh, respectively. In May 2012, Shanxi Datong and Tianjin Construction Materials Group (Holding) Co., Ltd. were restructured and renamed as Datong Coal Mine Tianjian Iron & Steel Co., Ltd. (the "Datong"). On June 10, 2013, Xi'an TCH and Datong entered into a supplemental agreement relating to the minimum service fee. The minimum service fee per month for the first five years is $0.19 million (RMB 1.2 million), $0.18 million (RMB 1.1 million) for the second five years, $0.16 million (RMB 1.0 million) for the following 10 years and $0.15 million (RMB 0.9 million) for the last 10 years. After 30 years, the units will be transferred to Datong at no additional charge. On May 26, 2015, the 15MW WGPG system was completed.

Due to a change to its strategic plan, Datong notified Xi'an TCH that it would not be able to fulfill its obligations under the Cooperative Agreement and requested to repurchase the two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and one 15MW WGPG system (the "Systems") from Xi'an TCH and terminate the Cooperative Agreement. On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong was to repurchase the Systems from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million ($193,548) to Xi'an TCH within five business days from the execution of the Repurchase Agreement. The Systems were to be transferred to Datong for a total price of RMB 250 million ($40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million for one WGPG system. As of June 30, 2015, Xi'an TCH had received the payment in full and the systems were transferred. The outstanding balance of net investment receivable (the remaining principal amount) at the date of transfer was $13.37 million. The Company recorded $2.98 million gain from two BRPT systems as non-operating income and $3.02 million gain from the WGPG system as gross profit from the sales of system which was the difference between the repurchase amount and the net investment receivable.

*Shenqiu Yuneng Biomass Power Generation Projects*

On May 25, 2011, Xi'an TCH entered into a Letter of Intent with Shenqiu YuNeng Thermal Power Co., Ltd. ("Shenqiu") to reconstruct and transform a Thermal Power Generation System owned by Shenqiu into a 75T/H BMPG System for $3.57 million (RMB 22.5 million). The project commenced in June 2011 and was completed in the third quarter of 2011. On September 28, 2011, Xi'an TCH entered into a Biomass Power Generation Asset Transfer Agreement with

Shenqiu (the “Shenqiu Transfer Agreement”). Pursuant to the Shenqiu Transfer Agreement, Shenqiu sold Xi’an TCH a set of 12 MW BMPG systems (after Xi’an TCH converted the system for BMPG purposes). As consideration for the BMPG systems, Xi’an TCH agreed to pay Shenqiu $10.94 million (RMB 70 million) in cash in three installments within six months upon the transfer of ownership of the systems. By the end of 2012, all of the consideration was paid. On September 28, 2011, Xi’an TCH and Shenqiu also entered into a Biomass Power Generation Project Lease Agreement (the “2011 Shenqiu Lease”). Under the 2011 Shenqiu Lease, Xi’an TCH agreed to lease a set of 12MW BMPG systems to Shenqiu at a monthly rental rate of $286,000 (RMB 1.8 million) for 11 years. Upon expiration of the 2011 Shenqiu Lease, ownership of this system will be transferred from Xi’an TCH to Shenqiu at no additional cost. In connection with the 2011 Shenqiu Lease, Shenqiu paid one month’s rent as a security deposit to Xi’an TCH, in addition to providing personal guarantees.

On October 8, 2012, Xi’an TCH entered into a Letter of Intent for technical reformation of Shenqiu Project Phase II with Shenqiu for technical reformation to enlarge the capacity of the Shenqiu Project Phase I (the “Shenqiu Phase II Project”). The technical reformation involved the construction of another 12MW BMPG system. After the reformation, the generation capacity of the power plant increased to 24MW. The project commenced on October 25, 2012 and was completed during the first quarter of 2013. The total cost of the project was $11.1 million (RMB 68 million). On March 30, 2013, Xi’an TCH and Shenqiu entered into a BMPG Project Lease Agreement (the “2013 Shenqiu Lease”). Under the 2013 Shenqiu Lease, Xi’an TCH agreed to lease the second set of 12MW BMPG systems to Shenqiu for $239,000 (RMB 1.5 million) per month for 9.5 years. When the 2013 Shenqiu Lease expires, ownership of this system will be transferred from Xi’an TCH to Shenqiu at no additional cost.

*Pucheng Biomass Power Generation Projects*

On September 11, 2013, Xi'an TCH entered into a BMPG Asset Transfer Agreement (the "Pucheng Transfer Agreement") with Pucheng Xin Heng Yuan Biomass Power Generation Corporation ("Pucheng"), a limited liability company incorporated in China. The Pucheng Transfer Agreement provided for the sale by Pucheng to Xi'an TCH of a set of 12MW BMPG systems with the completion of system transformation for a purchase price of RMB 100 million ($16.48 million) in the form of 8,766,547 shares of common stock of the Company at the price of $1.87 per share. Also on September 11, 2013, Xi'an TCH also entered into a BMPG Project Lease Agreement with Pucheng (the "Pucheng Lease"). Under the Pucheng Lease, Xi'an TCH leases this same set of 12MW BMPG system to Pucheng, and combines this lease with the lease for the 12MW BMPG station of Pucheng Phase I project, under a single lease to Pucheng for RMB 3.8 million ($0.63 million) per month (the "Pucheng Phase II Project"). The term for the consolidated lease is from September 2013 to June 2025. The lease agreement for the 12MW station from Pucheng Phase I project terminated upon the effective date of the Pucheng Lease. The ownership of two 12 MW BMPG systems will be transferred to Pucheng at no additional charge when the Pucheng Lease expires.

*Jitie Power Generation Projects*

In May 2013, Xi'an TCH signed a contract with Sinosteel Jilin Ferroalloys Co., Ltd. ("Jitie") to build furnace gas WHPG systems for electricity generation from recycled heat and steam from groups of ferroalloy furnaces and electric furnaces (the "Jitie Project"). According to the contract, Xi'an TCH agreed to install a 7.5 MW and a 3 MW turbine power generation system with a total of 10.5 MW power capacity for an estimated total investment of $9.71 million (RMB 60 million). The lease term is 24 years. During the term of this lease, Jitie will pay service fees to Xi'an TCH based on the actual generating capacity with a minimum service fee per month of $300,000 (RMB 1.8 million) and Xi'an TCH was responsible for the systems operation and owned the power generation systems. In December 2013, the Jitie Project was completed and began operations.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie agreed to repurchase the Jitie Project from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.8 million ($294,599) to Xi'an TCH within five business days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project was transferred to Jitie for a total price of RMB 90 million ($14.73 million). As of December 31, 2015, Xi'an TCH had received the payment in full and the systems were transferred. The outstanding balance of net investment receivable (the remaining principal amount) on the date of the transfer was $13.10 million. The Company recorded a $1.62 million gain from this transaction, which was the difference between the repurchase amount and net investment receivable.

*Chengli Waste Heat Power Generation Projects*

On July 24, 2013, Zhonghong entered into a Cooperative Agreement of CDQ and CDQ WHPG Project with Boxing County Chengli Gas Supply Co., Ltd. (“Chengli”). The parties entered into a supplement agreement on July 26, 2013. Pursuant to these agreements, Zhonghong agreed to design, build and maintain a 25 MW CDQ system and a CDQ WHPG system to supply power to Chengli, and Chengli agreed to pay energy saving fees (the “Chengli Project”). Chengli will contract the operation of the system to a third party contractor that is mutually agreed to by Zhonghong. In addition, Chengli will provide the land for the CDQ system and CDQ WHPG system at no cost to Zhonghong. The term of the Agreements is for 20 years. The first 800 million watt hours generated by the Chengli Project will be charged at RMB 0.42 ($0.068) per kWh (excluding tax); thereafter, the energy saving fee will be RMB 0.20 ($0.036) per kWh (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours per year due to a reason attributable to Chengli, then time charged shall be 8,000 hours a year, and if it is less than 8,000 hours due to a reason attributable to Zhonghong, then it shall be charged at actual operating hours. The construction of the Chengli Project was completed in the second quarter of 2015 and the project is currently under commissioning tests were successfully completed in the first quarter of 2017. The Company expects the Chengli Project to be operational in the second quarter of 2017, provided that the required power generating license is granted. When operations begin, Chengli shall ensure its coking production line works properly and that working hours for the CDQ system are at least 8,000 hours per year, and Zhonghong shall ensure that working hours and the CDQ WHPG system will be at least 7,200 hours per year.

On July 22, 2013, Zhonghong entered into an Engineering, Procurement and Construction ("EPC") General Contractor Agreement for the Boxing County Chengli Gas Supply Co., Ltd. CDQ Power Generation Project (the "Huaxin Project") with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong, as the owner of the Huaxin Project, contracted EPC services for a CDQ system and a 25 MW CDQ WHPG system for Chengli to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Huaxin Project and ensure the CDQ system and CDQ WHPG system for Chengli meet the inspection and acceptance requirements and work normally. The Huaxin Project is a turn-key project in which Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 200 million ($33.34 million), which includes all materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs. We anticipate that Huaxin Project will be operational in the second quarter of 2017.

*Tianyu Waste Heat Power Generation Project*

On July 19, 2013, Zhonghong entered into a Cooperative Agreement (the "Tianyu Agreement") for Energy Management of CDQ and CDQ WHPG with Jiangsu Tianyu Energy and Chemical Group Co., Ltd ("Tianyu"). Pursuant to the Tianyu Agreement, Zhonghong will design, build, operate and maintain two sets of 25 MW CDQ and CDQ WHPG systems for two subsidiaries of Tianyu – Xuzhou Tian'an Chemical Co., Ltd ("Xuzhou Tian'an") and Xuzhou Huayu Coking Co., Ltd ("Xuzhou Huayu") – to be located at Xuzhou Tian'an and Xuzhou Huayu's respective locations (the "Tianyu Project"). Upon completion of the Tianyu Project, Zhonghong will charge Tianyu an energy saving service fee of RMB 0.534 ($0.087) per kWh (excluding tax). The operating time will be based upon an average 8,000 hours annually for each of Xuzhou Tian'an and Xuzhou Huayu. If the operating time is less than 8,000 hours per year due to a reason attributable to Tianyu, then time charged will be 8,000 hours a year. The construction of the Xuzhou Tian'an Project is anticipated to be completed by the third quarter of 2017. Xuzhou Tian'an will provide the land for the CDQ and CDQ WHPG systems for free. Xuzhou Tian'an also guarantees that it will purchase all of the power generated by the CDQ WHPG systems. The Xuzhou Huayu Project is currently on hold due to a conflict between Xuzhou Huayu Coking Co., Ltd and local residents on certain pollution-related issues. The local government has acted in its capacity to coordinate the resolution of this issue. The local residents were requested to move out from the hygienic buffer zone of the project location with compensatory payments from the government. Xuzhou Huayu was required to stop production and implement technical innovations of pollution discharge including sewage treatment, dust collection, noise control, and recycling of coal gas. Currently, some local residents have moved out. Xuzhou Huayu has completed the implementation of the technical innovations of sewage treatment, dust collection, and noice control, and expects to complete the recycling of coal gas by the end of June 2017. Once Huayu obtains government's acceptance and approval of the technical innovations, the project will resume.

On July 22, 2013, Xi'an Zhonghong New Energy Technology Co., Ltd. entered into an EPC General Contractor Agreement for the Xuzhou Tianyu Group CDQ Power Generation Project with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong as the owner of the Project contracted EPC for the two sets of CDQ and 25 MW CDQ WHPG systems for Tianyu to Huaxin—one for Xuzhou Tian'an and one for Xuzhou Huayu. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary works to complete the Project and ensure the CDQ and CDQ WHPG systems for Tianyu meet the

inspection and acceptance requirements and work normally. The project is a turn-key project and Huaxin is responsible for the quality, safety, duration and cost of the Project. The total contract price is RMB 400 million ($66.67 million) of which RMB 200 million ($33.34 million) is for the Xuzhou Tian'an system and RMB 200 million is for the Xuzhou Huayu system. The price is a cover-all price, which includes but not limited to all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety matters.

*Yida Coke Oven Gas Power Generation Project*

On June 28, 2014, Xi'an TCH entered into an Asset Transfer Agreement (the "Transfer Agreement") with Qitaihe City Boli Yida Coal Selection Co., Ltd. ("Yida"), a limited liability company incorporated in China. The Transfer Agreement provided for the sale to Xi'an TCH of a 15 MW coke oven WGPG station, which has been converted from a 15 MW coal gangue power generation station from Yida. As consideration for the Transfer Asset, Xi'an TCH paid to Yida RMB 115 million ($18.69 million) in the form of the common stock shares of the Company at the average closing price per share of the Stock for the 10 trading days prior to the closing date of the transaction (the "Shares"). The exchange rate between US Dollar and Chinese RMB in connection with the stock issuance was the rate equal to the middle rate published by the People's Bank of China on the closing date of the assets transfer.

On June 28, 2014, Xi'an TCH also entered into a Coke Oven Gas Power Generation Project Lease Agreement (the "Lease Agreement") with Yida. Under the Lease Agreement, Xi'an TCH leased the Transfer Asset to Yida for RMB 3 million ($0.49 million) per month, and the term of the lease is from June 28, 2014 to June 27, 2029. Yida will also provide an RMB 3 million ($0.49 million) security deposit (without interest) for the lease. Xi'an TCH will transfer the Transfer Asset back to Yida at no cost at the end of the term of the lease.

On June 22, 2016, Xi'an TCH entered into a Coal Oven Gas Power Generation Project Repurchase Agreement (the "Repurchase Agreement") with Yida. Under the Repurchase Agreement, Xi'an TCH agreed to transfer to Yida all the project assets for consideration of RMB 112,000,000 ($16.89 million) (the "Transfer Price") with Yida's retention of ownership of the Shares. Yida agreed to make the following payments: (i) the outstanding monthly leasing fees for April and May 2016 in total of RMB 6,000,000 ($0.90 million) to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; (ii) a payment of RMB 50,000,000 ($7.54 million) of the Transfer Price to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; and (iii) a payment of the remaining RMB 62,000,000 ($9.35 million) of the Transfer Price to Xi'an TCH within 15 business days from the execution of the Repurchase Agreement. Under the Repurchase Agreement, ownership of the project assets was transferred from Xi'an TCH to Yida within 3 business days after Xi'an TCH received the full Transfer Price and the outstanding monthly leasing fees. As of December 31, 2016, Xi'an TCH had received the outstanding monthly leasing fees for April and May 2016 in the amount of $0.90 million and the first payment of the Transfer Price in the amount of $7.54 million. On July 11, 2016, the Company received the second payment of the Transfer Price in the amount of $9.35 million. The Company recorded a $0.42 million loss from this transaction.

*Zhongtai WHPG Energy Management Cooperative Agreement*

On December 6, 2013, Xi'an entered into a CDQ and WHPG Energy Management Cooperative Agreement (the "Zhongtai Agreement") with Xuzhou Zhongtai Energy Technology Co., Ltd. ("Zhongtai"), a limited liability company incorporated in Jiangsu Province, China.

Pursuant to the Zhongtai Agreement, Xi'an TCH will design, build and maintain a 150 ton per hour CDQ system and a 25 MW CDQ WHPG system (the "Project") and sell the power to Zhongtai, and Xi'an TCH will also build a furnace to generate steam from the waste heat of the smoke pipeline and sell the steam to Zhongtai.

The construction period of the Project is expected to be 18 months from the date when conditions are ready for construction to begin. Zhongtai will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The term of payment is for 20 years. For the first 10 years of the term, Zhongtai shall pay an energy saving service fee at RMB 0.534 ($0.089) per kWh (including value added tax) for the power generated from the system. For the second 10 years of the term, Zhongtai shall pay an energy saving service fee at RMB 0.402 ($0.067) per kWh (including value added tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Zhongtai shall also pay an energy saving service fee for the steam supplied by Xi'an TCH at RMB 100 ($16.67) per ton (including value added tax). Zhongtai and its parent company will provide guarantees to ensure Zhongtai will fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Zhongtai at RMB 1 ($0.16). Zhongtai shall provide waste heat to the systems for no less than 8,000 hours per year and waste gas volume no less than 150,000 Nm3 per hour with a temperature no less than 950°C. If these requirements are not met, the term of the Zhongtai Agreement will be extended accordingly. If Zhongtai wants to terminate the Zhongtai Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: (i) if it is less than five years into the term when Zhongtai requests termination, Zhongtai shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's annual investment return times five years minus the years in which the system has already operated; or (ii) if it is more than five years into the term when Zhongtai requests the termination, Zhongtai shall pay Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

On March 14, 2016, Xi'an TCH entered into a Xuzhou Zhongtai CDQ and Waste Heat Power Generation System Transfer Agreement (the "Transfer Agreement") with Zhongtai and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China (the "Contractor").

The Transfer Agreement provides for the sale to Zhongtai of all the assets of the Project under construction from Xi'an TCH. Additionally, Xi'an TCH will transfer to Zhongtai the Engineering, Procurement and Construction ("EPC") Contract for the Project, which Xi'an TCH had entered into with the Contractor in connection with the Project. As consideration for the transfer of the Project, Zhongtai is to pay to Xi'an TCH an aggregate purchase price of RMB 167,360,000 (approximately $25.75 million and the "Transfer Price"), on the following schedule: (i) RMB 50,000,000 (approximately $7.69 million) of the Transfer Price was paid within 20 business days from the execution of the Transfer Agreement; (ii) RMB 30,000,000 (approximately $4.32 million) of the Transfer Price will be paid within 20 business days upon the completion of the construction of the Project but not later than July 30, 2016; and (iii) RMB 87,360,000 (approximately $13.44 million) of the Transfer Price will be paid before July 30, 2017. The temporary ownership of the Project was transferred from Xi'an TCH to Zhongtai after the Xi'an TCH received the first payment of RMB 50,000,000, and the full ownership of the Project is to be officially transferred to Zhongtai upon full payment of the Transfer Price. The Zhongtai Agreement is to be terminated and Xi'an TCH will agree not to pursue any breach of contract liability against the Zhongtai under the Zhongtai Agreement when Zhongtai fully pays the Transfer Price according to the terms of the Transfer Agreement. If the Transfer Price is not fully paid on time pursuant to the Transfer Agreement, the Transfer Agreement automatically terminates and Xi'an TCH retains ownership of the Project, and both parties would continue to possess their respective rights and obligations according to the Zhongtai Agreement and assume the liabilities for breach of the Zhongtai Agreement. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments by Zhongtai. As of December 31, 2016, Xi'an TCH had received the first payment of $7.70 million and the second payment of $4.32 million. The Company recorded a $2.82 million loss from this transaction.

*Rongfeng CDQ Power Generation Energy Management Cooperative Agreement*

On December 12, 2013, Xi'an TCH entered into a CDQ Power Generation Energy Management Cooperative Agreement with Tangshan Rongfeng Iron & Steel Co., Ltd. (the "Rongfeng Agreement"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Rongfeng Agreement, Xi'an TCH will design, build and maintain a CDQ system and a CDQ WHPG system and sell the power to Rongfeng. The construction period of the Project is expected to be eighteen (18) months after the Agreement takes effect and from the date when conditions are ready for construction to begin.

Rongfeng will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The term of payment is for 20 years. For the first 10 years of the term, Rongfeng shall pay an energy

saving service fee at RMB 0.582 ($0.095) per kWh (including tax) for the power generated from the system. For the second 10 years of the term, Rongfeng shall pay an energy saving service fee at RMB 0.432 ($0.071) per kWh (including tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Rongfeng and its parent company will provide guarantees to ensure Rongfeng will fulfill its obligations under the Rongfeng Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Rongfeng at RMB 1. Rongfeng shall provide waste heat to the systems for no less than 8,000 hours per year with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Rongfeng wants to terminate the Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it is less than or equal to five years into the term when Rongfeng requests termination, Rongfeng shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times five years minus the years of which the system has already operated); 2) if it is more than five years into the term when Rongfeng requests the termination, Rongfeng shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH would transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng is to pay to Xi'an TCH an aggregate purchase price of RMB 165,200,000 ($25.45 million) on the following schedule: (i) RMB 65,200,000 ($10.05 million) was paid by Rongfeng to Xi'an TCH within 20 business days after signing the Transfer Agreement, (ii) RMB 50,000,000 ($7.70 million) was paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016, and (iii) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest stockholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 ($10.05 million) by Rongfeng to Xi'an TCH, and the full ownership of the Project will be transferred to Rongfeng after it completes the entire payment pursuant to the terms of the Transfer Agreement. As of December 31, 2015, Xi'an TCH received the first payment of $10.05 million, and on April 6, 2016, Xi'an TCH received the second payment of $7.70 million. The Company recorded a $3.78 million loss from this transaction in 2015. As of December 31, 2016, the Company had received payment in full of $25.45 million.

*Baoliyuan CDQ Power Generation Energy Management Cooperative Agreement*

On March 26, 2014, Xi'an TCH entered into a CDQ Waste Heat Recycling Project Energy Management Cooperative Agreement with Tangshan Baoliyuan Coking Co., Ltd. ("Baoliyuan"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Agreement, Xi'an TCH was to design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Baoliyuan (the "CDQ Project") and Xi'an TCH was to also build a high scale waste water treatment system for Baoliyuan and charge monthly payment for two years (the "Waste Water Treatment Project").

The construction period of the CDQ Project was expected to be 15 months from the effective date of the Agreement. Baoliyuan was to start to pay an energy saving fee from the date when the WHPG station passed the required 72-hour test run. The term of payment was for 20 years and Baoliyuan was to pay an energy saving fee at RMB 0.7 ($0.114) per kWh (including tax) for the power generated from the system, from which Xi'an TCH shall take 92.86% and Baoliyuan was to take 7.14% as parties to share the energy saving benefits. During the term of the contract the energy saving fee was to be adjusted at the same percentage as the change of the local grid electricity price. Baoliyuan was to provide guarantees to ensure it will fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH was to transfer the systems to Baoliyuan at RMB 1.

If Baoliyuan wanted to terminate the Agreement early, it was to provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: (i) if it was less than or equal to five years into the term when Baoliyuan requested termination, Baoliyuan was to pay: Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times five years minus the years of which the system had already operated; (ii) if it was more than five years into the term when Baoliyuan requests the termination, Baoliyuan was to pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 20 years).

The Baoliyuan project was cancelled in May 2015 because the project required the blasting and leveling of a mountain and Baoliyuan could not obtain all the necessary permits for the construction from the local government.

**Related Party Transactions**

As of December 31, 2016, the Company had $44,059 in advances from the Company's management, which bore no interest, and were payable upon demand.

On August 27, 2014, the Company entered into a Share Purchase Agreement (the "Agreement") with Mr. Ku. Pursuant to the Agreement, the Company issued to Mr. Ku 1,382,908 shares of the Company's common stock on September 5, 2014 (adjusted for the 1:10 reverse stock split). The purchase price per share for the Shares was the average closing price quoted on the NASDAQ Global Market for the common stock of the Company for 15 trading days prior to the effective date of the Agreement, which was $1.37 per share. The Company received payments in two installments of $12 million and $6.91 million on September 5, 2014 and September 12, 2014, respectively, in equivalent of RMB 74.05 million and RMB 42.85 million, respectively, using the middle exchange rate between USD and RMB published by the People's Bank of China on the effective date of the agreement pursuant to its terms. These shares were recorded using the fair value of $1.49 per share. The Company filed a registration statement registering the Shares for resale on Form S-3 (Reg. No. 333-214834), which was declared effective by the Securities and Exchange Commission on December 20, 2016.

During the year ended December 31, 2016, the Company recognized RMB 28.47 million ($4.29 million) interest income for sales-type lease of Pucheng BMPG systems from Pucheng Xin Heng Yuan Biomass Power Generation Corporation, whose major stockholder became a stockholder of CREG through the issuance of the Company's common stock to this stockholder in consideration for the transfer of the old system to CREG for BMPG system transformation.

Also during the year ended December 31, 2016, prior to repurchase date, the Company recognized RMB 13.83 million ($2.09 million) interest income for sales-type lease of Yida WGPG system from Qitaihe City Boli Yida Coal Selection Co., Ltd., whose major stockholder became a stockholder of CREG through the issuance of the Company's common stock to this stockholder in consideration for the transfer of the old system to CREG for WGPG system transformation.

**Critical Accounting Policies and Estimates**

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

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

**Basis of Presentation**

These accompanying consolidated financial statements were prepared in accordance with US GAAP and pursuant to the rules and regulations of the SEC for financial statements.

**Basis of Consolidation**

The consolidated financial statements include the accounts of CREG and, its subsidiary, Sifang Holdings and Yinghua; Sifang Holdings' wholly-owned subsidiaries, Huahong and Shanghai TCH; Shanghai TCH's wholly-owned subsidiary Xi'an TCH; and Xi'an TCH's subsidiaries, Erdos TCH, Zhonghong, and Zhongxun. Substantially all of the Company's revenues are derived from the operations of Shanghai TCH and its subsidiaries, which represent substantially all of the Company's consolidated assets and liabilities as of December 31, 2016 and 2015, respectively. All significant inter-company accounts and transactions were eliminated in consolidation.

**Use of Estimates**

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

**Concentration of Credit Risk**

Cash includes cash on hand and demand deposits in accounts maintained within China. Balances at financial institutions within China are not covered by insurance. The Company has not experienced any losses in such accounts.

Certain other financial instruments, which subject the Company to concentration of credit risk, consist of accounts and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable.

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

**Accounts Receivable**

As of December 31, 2016, the Company had accounts receivable of $12,593,340 (from sale of CDQ and a CDQ WHPG system to Zhongtai). As of December 31, 2015, the Company had accounts receivable of $15,399,778 (from sale of CDQ and a CDQ WHPG system to Rongfeng).

**Interest Receivable on Sales Type Leases**

As of December 31, 2016, the interest receivable on sales type leases was $4,621,491, mainly representing recognized but not yet collected interest income for the Pucheng and Shenqiu systems. As of December 31, 2015, the interest

receivable on sales type leases was $555,451.

The Company maintains reserves for potential credit losses on receivables. Management reviews the composition of receivables and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Both of the Shenqiu and Pucheng Projects were placed on hold in 2016 due to the rise in prices of raw materials. After a period of production halt, the prices of raw materials have bounced back. Their operating workers have completed equipment maintenance and are cleaning the stock ground so as to collect materials in preparation for the resumption of production. The Shenqiu and Pucheng users have a good record of payment and have promised to repay the due amount gradually after production resumes. Based on an evaluation of the collectability, the Company did not record any bad debt allowances at December 31, 2016 and 2015.

**Revenue Recognition**

*Sales-type Leasing and Related Revenue Recognition*

The Company constructs and then leases waste energy recycling power generating projects to its customers. The Company typically transfers ownership of the waste energy recycling power generating projects to its customers at the end of each lease. Investment in these projects is recorded as investment in sales-type leases in accordance with “Accounting for Leases”, codified in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 840 and its various amendments and interpretations. The Company manufactures and constructs waste energy recycling power generating projects and finances its customers for the costs of the projects. The sales and cost of sales are recognized at the time of sale or inception of the lease. The investment in sales-type leases consists of the sum of the total minimum lease payments receivable less unearned interest income and estimated executory cost. Unearned interest income is amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease. While a portion of revenue is recognized at the inception of the lease, the cash flow from the sales-type lease occurs over the course of the lease. Revenue is net of the Value Added Tax.

*Contingent Rental Income*

The Company records the income from actual electricity usage in addition to minimum lease payment of each project as contingent rental income in the period earned. Contingent rent is not part of minimum lease payments.

**Foreign Currency Translation and Comprehensive Income (Loss)**

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

The Company uses "Reporting Comprehensive Income" (codified in FASB ASC Topic 220). Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders.

**RESULTS OF OPERATIONS**

**Comparison of Years Ended December 31, 2016 and 2015**

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales, certain columns may not add due to rounding.

| | 2016 (Restated) | | **2015** | |
|---|---|---|---|---|
| | | % of Sales | | % of Sales |
| Sales | $ 4,482,850 | 100 % | $ 24,355,500 | 100 % |
| Sales of systems | - | - % | 24,083,232 | 99 % |
| Contingent rental income | 4,482,850 | 100 % | 272,268 | 1 % |
| Cost of sales | 74,415 | 2 % | 21,138,645 | 87 % |
| Cost of systems and contingent rental income | 74,415 | 2 % | 21,138,645 | 87 % |
| Gross profit | 4,408,435 | 98 % | 3,216,855 | 13 % |
| Interest income on sales-type leases | 11,629,410 | 259 % | 22,998,834 | 94 % |
| Total operating income | 16,037,845 | 358 % | 26,215,689 | 107 % |
| Total operating expenses | (61,900,060 ) | (1,381 )% | (2,308,608 ) | (9 )% |
| Income (Loss) from operations | (45,862,215 ) | (1,023 )% | 23,907,081 | 98 % |
| Total non-operating expenses, net | (9,713,878 ) | (217 )% | (2,294,543 ) | (9 )% |
| Income (Loss) before income tax | (55,576,093 ) | (1,240 )% | 21,612,538 | 89 % |
| Income tax expense (benefit) | (6,933,525 ) | (155 )% | 3,244,695 | 13 % |
| Less: net loss attributable to noncontrolling interest | (347,136 ) | (8 )% | (29,582 ) | -% |
| Net income (loss) attributable to China Recycling Energy Corp | $ (48,295,432 ) | (1,077 )% | $ 18,397,425 | 76 % |

*SALES.* Total sales for the year ended December 31, 2016 were $4,482,850, while total sales for 2015 were $24.36 million, a decrease of $19.87 million. Of the total sales, sales of systems for the years ended December 31, 2016 and 2015 were $0 and $24.08 million, respectively; the decrease was primarily due to the sale of the Datong project in 2015. For the year ended December 31, 2016, the Company had contingent rental income of $4.48 million, compared to $0.27 million of contingent rental income from the usage of electricity in addition to the minimum lease payments for the comparable period in 2015. On April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016, whereby Erdos TCH cancelled monthly minimum lease payments from Erdos, and charges Erdos based on actual electricity sold at RMB 0.30 / Kwh. For the sales-type leases, sales and COS are recorded at the time of the lease; in addition to sales revenue, our other major source of revenue is interest income from the sales-type leases.

*COST OF SALES.* Cost of sales for the year ended December 31, 2016 was $74,415, while our COS for 2015 was $21.14 million (mainly was the cost of the system sold), a decrease of $21.06 million. We sold the Datong WGPG project upon completion of the construction in the year ended December 31, 2015; while we did not finish any new construction or sale any new system in the year ended December 31, 2016.

*GROSS PROFIT*. Gross profit was $4,408,435 for the year ended December 31, 2016, compared to gross profit of $3.22 million for 2015, representing a blended gross margin of 98% and 13% for the 2016 and 2015 fiscal years, respectively. The increase in blended gross profit margin in the year ended December 31, 2016 was primarily due to increased contingent rental income of Erdos TCH which was charged based on actual electricity sold resulting from a modified lease term effective on May 1, 2016.

*INTEREST INCOME ON SALES-TYPE LEASES*. Interest income on sales-type leases for the year ended December 31, 2016 was $11.63 million, a $11.37 million decrease from $23 million for the year ended December 31, 2015. During the year ended December 31, 2016, interest income was derived from the following ten (10) sales-type leases:

i. Two BMPG systems to Pucheng Phase I and II (15 and 11.9 years, respectively);

ii. One BMPG system to Shenqiu Phase I (11 years);

iii. One BMPG system to Shenqiu Phase II (9.5 years);

iv. Five power and steam generating systems to Erdos (20 years), up to lease modification date;

v. One WGPG system to Yida (15 years but sold in 2nd quarter of 2016).

On April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016, whereby Erdos TCH cancelled monthly minimum lease payments from Erdos, and charges Erdos based on actual electricity sold at RMB 0.30 / Kwh. The selling price of each Kwh will be determined annually based on market condition.

In comparison, during the year ended December 31, 2015, interest income was derived from the following thirteen (13) sales-type leases:

i. Two BMPG systems to Pucheng Phase I and II (15 and 11.9 years, respectively);

ii. One BMPG system to Shenqiu Phase I (11 years);

iii. One BMPG system to Shenqiu Phase II (9.5 years);

iv. Five power and steam generating systems to Erdos (20 years);

v. One WHPG system to Jitie (24 years);

vi. Two BPRT systems to Shanxi Datong (30 years); and

vii. One WGPG system to Yida (15 years).

*OPERATING EXPENSES.* Operating expenses consisted of general and administrative expenses and impairment loss on net investment receivable totaling $61.9 million for the year ended December 31, 2016, as compared to $2.31 million general and administrative expenses for 2015, a increase of $59.59 million or 2,581%. The increase was mainly due to a $57.37 million impairment loss on net investment receivable of Erdos TCH, and a $2.97 million

increase in operating expense which was mainly from the system operating cost of Erdos TCH.

*NET NON-OPERATING EXPENSES.* Net non-operating expenses consisted of non-sales-type lease interest income, interest expenses, bank charges and miscellaneous expenses. For the year ended December 31, 2016, net non-operating expense was $9.71 million compared to net non-operating expense of $2.29 million for the year ended December 31, 2015. For the year ended December 31, 2016, we had $0.13 million interest income and $0.52 million other income, but the amounts were offset by a $7.18 million interest expense on loans, a $2.78 million loss from the sale of construction in progress of the Xuzhou Zhongtai project, and a $0.41 million loss on systems repurchase from Yida. For the year ended December 31, 2015, we had a $2.93 million gain from the sales of two BRPT systems to Datong and a $1.59 million gain from the sale of a WHPG system to Jitie, and $0.16 million interest income, but the amounts were offset by a $3.22 million interest expense on loans and a $3.78 million loss from the sale of construction in progress of the Tangshan Rongfeng project.

*INCOME TAX EXPENSE (BENEFIT).* Income tax benefit was $6.93 million for the year ended December 31, 2016, an increase of $10.18 million in income tax benefit from $3.24 million income tax expense for 2015. The consolidated effective income tax rate for the years ended December 31, 2016 and 2015 were (12.5)% and 15%, respectively; the increase in income tax benefit in 2016 was mainly due to increased taxable loss including the loss from disposal of fixed assets of Xuzhou Zhongtai and Yida systems per PRC tax return purposes. Xi’an TCH’s income tax rate was 15% for 2015 as a result of its high-tech enterprise status and is 25% for 2016 due to the expiration of such status.

*NET INCOME (LOSS).* Net loss for the year ended December 31, 2016 was $48.30 million compared to net income of $18.40 million for the year ended December 31, 2015, a decrease of $66.69 million. This decrease in net income was mainly due to $57.37 impairment loss on net investment receivable and decreased interest income on sales-type leases and increased non-operating expenses in the year ended December 31, 2016.

**Liquidity and Capital Resources**

**Comparison of the years ended December 31, 2016 and 2015**

As of December 31, 2016, the Company had cash and equivalents of $47.75 million, other current assets of $26.56 million, current liabilities of $53.96 million, working capital of $20.35 million, a current ratio of 1.38:1 and a debt-to-equity ratio of 0.37:1.

The following is a summary of cash provided by or used in each of the indicated types of activities during the years ended December 31, 2016 and 2015:

| | 2016 (Restated) | 2015 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating Activities | $ 39,514,211 | $ 63,911,466 |
| Investing Activities | 1,105,039 | (1,198,315 ) |
| Financing Activities | (31,570,390 ) | (54,431,989 ) |

Net cash provided by operating activities was $39.51 million during the year ended December 31, 2016, compared to $63.91 million provided by operating activities in 2015. The $24.40 million decrease in net cash inflow in the year ended December 31, 2016 was mainly due to a decrease in net income by $67.01 million but was offset by $57.37 million impairment loss on net investment receivable, an increase in cash outflow for accrued liabilities and other payables by $2.05 million, a decrease on interest receivable on sales type leases by $5.57 million, and a decrease in collection of principal on sales type leases by $34.81 million; however, the decrease in cash inflow was partially offset by increased cash received in connection with construction in progress by $10.53 million as a result of disposal of construction in progress of Xuzhou Zhongtai, and an increased cash inflow on accounts receivable by $17.94 million.

Net cash provided by investing activities was $1.11 million for the year ended December 31, 2016, compared to net cash used in investing activities of $1.20 million in 2015. We had $1.11 million cash inflow from change in restricted cash in the year ended December 31, 2016 compared with $1.18 million cash outflow from changes in restricted cash, and $0.02 million cash outflow for acquisition of property and equipment in the year ended December 31, 2015.

Net cash used in financing activities was $31.57 million for the year ended December 31, 2016 compared to net cash used in financing activities of $54.43 million for the year ended December 31, 2015. The cash outflow in the year ended December 31, 2016 included $30.58 million repayment of bank loans and $0.99 million repayment of notes payable. In comparison, during the year ended December 31, 2015, we had $58.50 million repayment of bank loans and $2.36 million repayment of a long-term payable, offset by $6.42 million proceeds from bank loans.

We believe we have sufficient cash to continue our current business through 2017 based on recurring receipts from existing sales-type leases. As of December 31, 2016, we had five recycling WHPG systems from the Erdos projects and four BMPG systems (two for Pucheng and two for Shenqiu), all of which generate cash flow. In addition, we have access to bank loans in case of an immediate need for working capital. We believe we have sufficient cash resources to cover our anticipated capital expenditures in 2017. The 9 systems that are currently in operation have minimum monthly lease payments of RMB 8.08 million ($1.23 million).

We do not believe inflation has had or will have a significant negative impact on our results of operations in 2017.

**Transfers of Cash to and from Our Subsidiaries**

The PRC has currency and capital transfer regulations that require us to comply with certain requirements for the movement of capital. The Company is able to transfer cash (US Dollars) to its PRC subsidiaries through: (i) an investment (by increasing the Company's registered capital in a PRC subsidiary), or (ii) a stockholder loan. Except as described below, the Company's subsidiaries in the PRC have not transferred any earnings or cash to the Company to date. The Company's business is primarily conducted through its subsidiaries. The Company is a holding company and its material assets consist solely of the ownership interests held in its PRC subsidiaries. The Company relies on dividends paid by its subsidiaries for its working capital and cash needs, including the funds necessary: (i) to pay dividends or cash distributions to its stockholders, (ii) to service any debt obligations and (iii) to pay operating expenses. As a result of PRC laws and regulations (noted below) that require annual appropriations of 10% of after-tax income to be set aside in a general reserve fund prior to payment of dividends, the Company's PRC subsidiaries are restricted in that respect, as well as in others respects noted below, in their ability to transfer a portion of their net assets to the Company as a dividend.

With respect to transferring cash from the Company to its subsidiaries, increasing the Company's registered capital in a PRC subsidiary requires the pre-approval of the local commerce department, while a stockholder loan requires a filing with the state administration of foreign exchange or its local bureau.

With respect to the payment of dividends, we note the following:

1. PRC regulations currently permit the payment of dividends only out of accumulated profits, as determined in accordance with accounting standards and PRC regulations (an in-depth description of the PRC regulations is set forth below);

2. Our PRC subsidiaries are required to set aside, at a minimum, 10% of their net income after taxes, based on PRC accounting standards, each year as statutory surplus reserves until the cumulative amount of such reserves reaches 50% of their registered capital;

3. Such reserves may not be distributed as cash dividends;

4. Our PRC subsidiaries may also allocate a portion of their after-tax profits to fund their staff welfare and bonus funds; except in the event of a liquidation, these funds may also not be distributed to stockholders; the Company does not participate in a Common Welfare Fund;

5. The incurrence of debt, specifically the instruments governing such debt, may restrict a subsidiary's ability to pay stockholder dividends or make other cash distributions; and

6. The Company is subject to covenants and consent requirements (presently, the Company has all consents necessary).

If, for the reasons noted above, our subsidiaries are unable to pay stockholder dividends and/or make other cash payments to the Company when needed, the Company's ability to conduct operations, make investments, engage in acquisitions, or undertake other activities requiring working capital may be materially and adversely affected. However, our operations and business, including investment and/or acquisitions by our subsidiaries within China, will not be affected as long as the capital is not transferred in or out of the PRC.

*PRC Regulations*

In accordance with PRC regulations on Enterprises with Foreign Investment and their articles of association, a foreign-invested enterprise ("FIE") established in the PRC is required to provide statutory reserves, which are appropriated from net profit, as reported in the FIE's PRC statutory accounts. An FIE is required to allocate at least 10% of its annual after-tax profit to the surplus reserve until such reserve has reached 50% of its respective registered capital (based on the FIE's PRC statutory accounts). The aforementioned reserves may only be used for specific purposes and may not be distributed as cash dividends. Until such contribution of capital is satisfied, the FIE is not allowed to repatriate profits to its stockholders, unless approved by the State Administration of Foreign Exchange. After satisfaction of this requirement, the remaining funds may be appropriated at the discretion of the FIE's board of directors. Our subsidiary, Shanghai TCH, qualifies as an FIE and is therefore subject to the above-mandated regulations on distributable profits.

Additionally, in accordance with PRC corporate law, a domestic enterprise is required to maintain a surplus reserve of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and may not be distributed as cash dividends. Xi'an TCH, Huahong, and Erdos TCH were established as domestic enterprises; therefore, each is subject to the above-mentioned restrictions on distributable profits.

As a result of PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside, prior to payment of dividends, in a general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company as a dividend or otherwise.

*Chart of the Company's Statutory Reserve*

Pursuant to PRC corporate law, effective January 1, 2006, the Company is required to maintain a statutory reserve by appropriating from its after-tax profit before declaration or payment of dividends. The statutory reserve represents restricted retained earnings. Our restricted and unrestricted retained earnings under US GAAP are set forth below:

| | As at December 31, | |
|---|---|---|
| | 2016 (Restated) | 2015 |
| Unrestricted retained earnings | $ 35,893,736 | $ 84,661,602 |
| Restricted retained earnings (surplus reserve fund) | 14,296,223 | 13,823,789 |
| Retained earnings (including surplus reserve fund) | $ 50,189,959 | $ 98,485,391 |

**Off-Balance Sheet Arrangements**

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

**Contractual Obligations**

The Company's contractual obligations as of December 31, 2016 are as follows:

| Contractual Obligation | **1 year or less** | **More than 1 year** | **See Note (for details)** |
|---|---|---|---|
| Bank loans and trust loan payable | $720,773 | $- | 12 |
| Entrusted loan | 47,570,996 | 288,309 | 12 |
| Total | $48,291,769 | $288,309 | |

The Company believes that it has a stable cash inflow each month and a sufficient channel to commercial institutions to obtain any loans that may be necessary to meet its working capital needs. Historically, we have been able to obtain loans or otherwise achieve our financing objectives due to the Chinese government's support for energy-saving businesses with stable cash inflows, good credit ratings and history. The Company does not believe it will have difficulties related to the repayment of its outstanding short-term loans.

**Commitments**

*Boxing Chengli Power Generation Projects*

On July 24, 2013, Zhonghong entered into a Cooperative Agreement of CDQ and CDQ WHPG Project with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli"), including a supplement agreement entered by the parties on July 26, 2013.

Pursuant to the agreements, Zhonghong will design, build and maintain a CDQ system and a 25 MW CDQ WHPG system to supply power to Chengli, and Chengli will pay energy saving fees. Chengli will contract the operation of the system to a third party contractor that is mutually agreed to by Zhonghong. In addition, Chengli will provide the land for the CDQ and CDQ WHPG system at no cost to Zhonghong. The term of the Agreements is 20 years. The energy saving service fees generated by the Project will be charged at RMB 0.42 ($0.068) per kWh (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours due to a reason attributable to Chengli's, then time charged shall be 8,000 hours a year, and if it is less than 8,000 hours due to a reason attributable to Zhonghong, then it shall be charged at actual operating hours. The construction of the Project was completed in the second quarter of 2015, and the commissioning tests were successfully completed in the first quarter of 2017. The Company expects the Chengli Project to be operational in the second quarter of 2017, provided that the required power generating license is granted. From the date of the operation, Chengli shall ensure its coking production line works properly and that working hours for the CDQ system are no less than 8,000 hours/year, while Zhonghong shall ensure that working hours and the CDQ WHPG system will be no less than 7,200 hours/year.

On July 22, 2013, Xi'an Zhonghong New Energy Technology Co., Ltd. entered into an EPC General Contractor Agreement for the Boxing County Chengli Gas Supply Co., Ltd. CDQ Power Generation Project (the "Project") with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong as the owner of the Project contracted EPC for a CDQ and a 25 MW CDQ WHPG system for Chengli to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary works to complete the Project and ensure the CDQ and CDQ WHPG system for Chengli meet the inspection and acceptance requirements and work normally. The project is a turn-key project and Huaxin is responsible for the quality, safety, duration and cost of the Project. The total contract price is RMB 200 million ($28.83 million). The price is a cover-all price which includes but is not limited to all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety matters. As of December 31, 2016, Zhonghong had paid $24.38 million for the project, and is committed to pay an additional $4.45 million for the Boxing project.

*Xuzhou Tian'an and Xuzhou Huayu CDQ Power Generation Projects*

On July 19, 2013, Zhonghong entered into a Cooperative Agreement for Energy Management of CDQ and CDQ WHPG Project (the "Tianyu Project") with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu").

Pursuant to the Tianyu Agreement, Zhonghong will design, build, operate and maintain two sets of 25 MW CDQ and CDQ WHPG systems for two subsidiaries of Tianyu: one is for and will be located at Xuzhou Tian'an Chemical Co., Ltd and one set is for and will be located at Xuzhou Huayu Coking Co., Ltd. Upon the completion of the Tianyu Project, Zhonghong will charge Tianyu an energy saving service fee of RMB 0.534 ($0.088) per kWh (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours a year due to the reason attributable to Tianyu, then time charged shall be 8,000 hours a year. Xuzhou Tian'an will provide the land for the CDQ and CDQ WHPG systems for free. Xuzhou Tian'an also guarantees that it will purchase all of the power generated by the CDQ WHPG systems.

On July 22, 2013, Xi'an Zhonghong New Energy Technology Co., Ltd. entered into an EPC General Contractor Agreement for the Xuzhou Tianyu Group CDQ Power Generation Project (the "Project") with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong as the owner of the Project contracted EPC for the two sets of CDQ and 25 MW CDQ WHPG systems for Tianyu to Huaxin—one for Xuzhou Tian'an and one for Xuzhou Huayu. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary works to complete the Project and ensure the CDQ and CDQ WHPG systems for Tianyu meet the inspection and acceptance requirements and work normally. The project is a turn-key project and Huaxin is responsible for the quality, safety, duration and cost of the Project. The total contract price is RMB 400 million ($66.67 million) of which RMB 200 million ($28.83 million) is for the Xuzhou Tian'an system and RMB 200 million is for the Xuzhou Huayu system. The price is a cover-all price which includes but is not limited to all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety matters. As of December 31, 2016, Zhonghong had paid $17.30 million for the Huayu project and $24.83 million for the Tian'an project and is committed to pay an additional $11.53 million for the Huayu project and $4.00 million for the Tian'an project.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

China Recycling Energy Corporation

We have audited the accompanying consolidated balance sheets of China Recycling Energy Corporation as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. China Recycling Energy Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Recycling Energy Corporation as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23, the financial statements for 2016 were restated.

MJF & Associates, APC

Los Angeles, CA

March 30, 2017, except for Notes 22 and 23, for which the date is March 21, 2019

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**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER, 31, 2016 AND 2015**

| | 2016 (RESTATED) | 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and equivalents | $ 47,752,353 | $ 41,749,388 |
| Restricted cash | - | 1,130,344 |
| Accounts receivable | 12,593,340 | 15,399,778 |
| Current portion of investment in sales-type leases, net | 8,101,583 | 6,679,019 |
| Interest receivable on sales type leases | 4,621,491 | 555,451 |
| Prepaid expenses | 682,781 | 1,179,778 |
| Other receivables | 560,468 | 553,886 |
| Total current assets | 74,312,016 | 67,247,644 |
| NON-CURRENT ASSETS | | |
| Investment in sales-type leases, net | 49,161,943 | 133,079,634 |
| Long term investment | 641,897 | 950,470 |
| Long term deposit | 61,564 | 57,033 |
| Property and equipment, net | 12,558 | 17,724 |
| Construction in progress | 86,493,182 | 115,522,068 |
| Total non-current assets | 136,371,144 | 249,626,929 |
| TOTAL ASSETS | $ 210,683,160 | $ 316,874,573 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 1,506,924 | $ 427,732 |
| Notes payable - bank acceptances | - | 1,130,344 |
| Taxes payable | 1,202,677 | 1,058,417 |
| Accrued liabilities and other payables | 1,596,580 | 3,199,395 |
| Due to related parties | 44,059 | 44,059 |
| Deferred tax liability, net | 1,097,111 | 1,538,105 |
| Loans payable - current | 720,773 | 6,159,911 |
| Interest payable on entrusted loans | 224,090 | 268,801 |
| Current portion of entrusted loan payable | 47,570,996 | 43,119,379 |
| Total current liabilities | 53,963,210 | 56,946,143 |

| | | |
|---|---|---|
| NONCURRENT LIABILITIES | | |
| Deferred tax liability, net | 1,968,241 | 10,771,348 |
| Refundable deposit from customers for systems leasing | 1,023,497 | 1,555,378 |
| Loans payable | - | 18,187,138 |
| Entrusted loan payable | 288,309 | 15,707,773 |
| Total noncurrent liabilities | 3,280,047 | 46,221,637 |
| Total liabilities | 57,243,257 | 103,167,780 |
| CONTINGENCIES AND COMMITMENTS | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized, 8,310,198 shares issued and outstanding as of December 31, 2016 and 2015, respectively | 8,310 | 8,310 |
| Additional paid in capital | 111,789,166 | 111,789,166 |
| Statutory reserve | 14,296,223 | 13,823,789 |
| Accumulated other comprehensive income (loss) | (8,415,101) | 3,210,315 |
| Retained earnings | 35,893,736 | 84,661,602 |
| Total Company stockholders' equity | 153,572,334 | 213,493,182 |
| Noncontrolling interest | (132,431) | 213,611 |
| Total equity | 153,439,903 | 213,706,793 |
| TOTAL LIABILITIES AND EQUITY | $ 210,683,160 | $ 316,874,573 |

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)**

| | YEAR ENDED DECEMBER 31, 2016 (RESTATED) | 2015 |
|---|---|---|
| Revenue | | |
| Sales of systems | $ - | $ 24,083,232 |
| Contingent rental income | 4,482,850 | 272,268 |
| Total revenue | 4,482,850 | 24,355,500 |
| Cost of sales | | |
| Cost of systems and contingent rental income | 74,415 | 21,138,645 |
| Gross profit | 4,408,435 | 3,216,855 |
| Interest income on sales-type leases | 11,629,410 | 22,998,834 |
| Total operating income | 16,037,845 | 26,215,689 |
| Operating expenses | | |
| Impairment loss on net investment receivable | 57,368,330 | - |
| General and administrative | 4,531,730 | 2,308,608 |
| Total operating expense | 61,900,060 | 2,308,608 |
| Income (Loss) from operations | (45,862,215 ) | 23,907,081 |
| Non-operating income (expenses) | | |
| Interest income | 129,762 | 161,086 |
| Interest expense | (7,178,248 ) | (3,217,689 ) |
| Loss on sale of construction in progress of Xuzhou Zhongtai | (2,775,084 ) | - |
| Loss on systems repurchase from Yida | (410,905 ) | - |
| Loss on sale of construction in progress of Tangshan Rongfeng | - | (3,780,138 ) |
| Gain on systems repurchase from Jitie and Datong | - | 4,521,443 |
| Other income | 520,597 | 20,755 |
| Total non-operating expenses, net | (9,713,878 ) | (2,294,543 ) |
| Income (Loss) before income tax | (55,576,093 ) | 21,612,538 |
| Income tax expense (benefit) | (6,933,525 ) | 3,244,695 |

| | | |
|---|---|---|
| Income (Loss) before noncontrolling interest | (48,642,568) | 18,367,843 |
| Less: loss attributable to noncontrolling interest | (347,136) | (29,582) |
| Net income (loss) attributable to China Recycling Energy Corporation | (48,295,432) | 18,397,425 |
| Other comprehensive items | | |
| Foreign currency translation loss attributable to China Recycling Energy Corporation | (11,625,416) | (12,776,823) |
| Foreign currency translation gain (loss) attributable to noncontrolling interest | 1,094 | (13,606) |
| Comprehensive income (loss) attributable to China Recycling Energy Corporation | $ (59,920,848) | $ 5,620,602 |
| Comprehensive loss attributable to noncontrolling interest | $ (346,042) | $ (43,188) |
| Basic and diluted weighted average shares outstanding | 8,310,198 | 8,308,116 |
| Basic and diluted earnings (loss) per share | $ (5.81) | $ 2.21 |

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | YEAR ENDED DECEMBER 31, 2016 (RESTATED) | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income (Loss) including noncontrolling interest | $ (48,642,568 ) | $ 18,367,843 |
| Adjustments to reconcile income including noncontrolling interest to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,212 | 26,038 |
| Stock option expense | | 9,390 |
| Investment income | 258,817 | (184,160 ) |
| Changes in deferred tax | (8,832,530 ) | (1,252,455 ) |
| Impairment loss on net investment receivable | 57,368,330 | - |
| Loss on systems repurchase from Yida | 410,905 | - |
| Gain on systems repurchase from Jitie and Datong | - | (4,521,443 ) |
| Loss on sale of construction in progress of Xuzhou Zhongtai | 2,775,084 | - |
| Loss on sale of construction in progress of Tangshan Rongfeng | - | 3,780,138 |
| Changes in assets and liabilities: | | |
| Interest receivable on sales type leases | (5,192,402 ) | 378,307 |
| Collection of principal on sales type leases | 19,955,404 | 54,760,726 |
| Prepaid expenses | 440,292 | (295,539 ) |
| Accounts receivable | 1,902,955 | (16,039,444 ) |
| Other receivables | (52,387 ) | 598,195 |
| Construction in progress | 19,830,172 | 9,300,928 |
| Accounts payable | 1,044,149 | 343,704 |
| Taxes payable | 221,314 | (1,464,907 ) |
| Interest payable on entrusted loan | (28,751 ) | - |
| Accrued liabilities and other payables | (1,948,785 ) | 104,145 |
| Net cash provided by operating activities | 39,514,211 | 63,911,466 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Changes of restricted cash | 1,105,039 | (1,178,473 ) |
| Acquisition of property and equipment | - | (19,842 ) |
| Net cash provided by (used in) investing activities | 1,105,039 | (1,198,315 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loans | - | 6,422,195 |
| Repayment of loans | (30,576,758 ) | (58,498,170 ) |

| | | |
|---|---|---|
| Long term payable | - | (2,359,225 ) |
| Repayment of notes payable | (993,632 ) | - |
| Advance from related parties | - | 3,211 |
| Net cash used in financing activities | (31,570,390 ) | (54,431,989 ) |
| EFFECT OF EXCHANGE RATE CHANGE ON CASH AND EQUIVALENTS | (3,045,895 ) | (2,402,804 ) |
| NET INCREASE IN CASH AND EQUIVALENTS | 6,002,965 | 5,878,358 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | 41,749,388 | 35,871,030 |
| CASH AND EQUIVALENTS, END OF YEAR | $ 47,752,353 | $ 41,749,388 |
| Supplemental cash flow data: | | |
| Income tax paid | $ 1,228,167 | $ 6,226,976 |
| Interest paid | $ 9,864,832 | $ 16,355,968 |

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**YEARS ENDED DECEMBER 31, 2016 (RESTATED) AND 2015**

| | Common stock | | Paid in | Shares to be | Statutory | Other comprehensive | Retained | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | capital | issued | reserves | income (loss) | earnings | Total |
| uary | 8,302,698 | 8,302 | 111,592,283 | 18,750 | 11,888,170 | 15,987,138 | 68,199,797 | 207,863,192 |
| or | 7,500 | 8 | 187,493 | (18,750 ) | - | - | - | - |
| ck | - | - | 9,390 | - | - | - | - | 9,390 |
| | - | - | - | - | - | - | 18,397,425 | 18,397,425 |
| ves | - | - | - | - | 1,935,619 | - | (1,935,619 ) | - |
| cy | - | - | - | - | - | (12,776,823 ) | - | (12,776,823 ) |
| | 8,310,198 | 8,310 | 111,789,166 | - | 13,823,789 | 3,210,315 | 84,661,602 | 213,493,182 |
| ar | - | - | - | - | - | - | (48,295,432 ) | (48,295,432 ) |
| ves | - | - | - | - | 472,434 | - | (472,434 ) | - |
| cy | - | - | - | - | - | (11,625,416 ) | - | (11,625,416 ) |
| | 8,310,198 | $ 8,310 | $ 111,789,166 | $ - | $ 14,296,223 | $ (8,415,101 ) | $ 35,893,736 | $ 153,572,334 |

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

China Recycling Energy Corporation (the "Company" or "CREG") was incorporated on May 8, 1980 as Boulder Brewing Company under the laws of the State of Colorado. On September 6, 2001, the Company changed its state of incorporation to the State of Nevada. In 2004, the Company changed its name from Boulder Brewing Company to China Digital Wireless, Inc. and on March 8, 2007, again changed its name from China Digital Wireless, Inc. to its current name, China Recycling Energy Corporation. The Company, through its subsidiaries, provides energy saving solutions and services, including selling and leasing energy saving systems and equipment to customers, project investment, investment management, economic information consulting, technical services, financial leasing, purchase of financial leasing assets, disposal and repair of financial leasing assets, consulting and ensuring of financial leasing transactions in the Peoples Republic of China ("PRC").

*Erdos TCH – Joint Venture*

On April 14, 2009, the Company formed a joint venture (the "JV") with Erdos Metallurgy Co., Ltd. ("Erdos") to recycle waste heat from Erdos' metal refining plants to generate power and steam to be sold back to Erdos. The name of the JV was Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd. with a term of 20 years. Total investment for the project was estimated at $79 million (RMB 500 million) with an initial investment of $17.55 million (RMB 120 million). Erdos contributed 7% of the total investment of the project, and Xi'an TCH Energy Technology Co., Ltd. ("Xi'an TCH") contributed 93%. According to the parties' agreement on profit distribution, Xi'an TCH and Erdos will receive 80% and 20%, respectively, of the profit from the JV until Xi'an TCH receives the complete return of its investment. Xi'an TCH and Erdos will then receive 60% and 40%, respectively, of the profit from the JV. On June 15, 2013, Xi'an TCH and Erdos entered into a share transfer agreement, pursuant to which Erdos transferred and sold its 7% ownership interest in the JV to Xi'an TCH for $1.29 million (RMB 8 million), plus certain accumulated profits as described below. Xi'an TCH paid the $1.29 million in July 2013 and, as a result, became the sole stockholder of the JV. In addition, Xi'an TCH paid Erdos accumulated profits from inception up to June 30, 2013 in accordance with a supplementary agreement entered on August 6, 2013. In August 2013, Xi'an TCH paid 20% of the accumulated profit (calculated under PRC GAAP) of $226,000 to Erdos. The JV currently has two power generation systems in Phase I with a total of 18MW power capacity, and three power generation systems in Phase II with a total of 27MW power capacity. On April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016, Erdos TCH cancelled monthly minimum lease payments from Erdos, and charges Erdos based on actual electricity sold at RMB 0.30 / Kwh. The selling price of each Kwh will be determined annually based on market condition. The Company evaluated the modified terms for payments based on actual electricity sold as minimum lease payments as

defined in ASC 840-10-25-4, since lease payments that depend on a factor directly related to the future use of the leased property are contingent rentals and, accordingly, are excluded from minimum lease payments in their entirety. The Company wrote off the net investment receivables of these leases at the lease modification date.

*Pucheng Biomass Power Generation Projects*

On June 29, 2010, Xi'an TCH entered into a Biomass Power Generation ("BMPG") Project Lease Agreement with PuchengXinHeng Yuan Biomass Power Generation Co., Ltd. ("Pucheng"), a limited liability company incorporated in China. Under this lease agreement, Xi'an TCH leased a set of 12MW BMPG systems to Pucheng at a minimum of $279,400 (RMB 1,900,000) per month for a term of 15 years.

On September 11, 2013, Xi'an TCH entered into a BMPG Asset Transfer Agreement (the "Pucheng Transfer Agreement") with Pucheng. The Pucheng Transfer Agreement provided for the sale by Pucheng to Xi'an TCH of a set of 12MW BMPG systems with completion of system transformation for a purchase price of RMB 100 million ($16.48 million) in the form of 8,766,547 shares of common stock of the Company at the price of $1.87 per share. These shares were issued to Pucheng on October 29, 2013. Also on September 11, 2013, Xi'an TCH entered into a BMPG Project Lease Agreement with Pucheng (the "Pucheng Lease"). Under the Pucheng Lease, Xi'an TCH leases this same set of 12MW BMPG system to Pucheng, and combined this lease with the lease for the 12MW BMPG station of Pucheng Phase I project, under a single lease to Pucheng for RMB 3.8 million ($0.63 million) per month (the "Pucheng Phase II Project"). The term for the combined lease is from September 2013 to June 2025. The lease agreement for the 12MW station from Pucheng Phase I project terminated upon the effective date of the Pucheng Lease. The ownership of two 12 MW BMPG systems will be transferred to Pucheng at no additional charge when the Pucheng Lease expires.

*Shenqiu Yuneng Biomass Power Generation Projects*

On May 25, 2011, Xi'an TCH entered into a Letter of Intent with ShenqiuYuNeng Thermal Power Co., Ltd. ("Shenqiu") to reconstruct and transform a Thermal Power Generation System owned by Shenqiu into a 75T/H BMPG System for $3.57 million (RMB 22.5 million). The project commenced in June 2011 and was completed in the third quarter of 2011. On September 28, 2011, Xi'an TCH entered into a BMPG Asset Transfer Agreement with Shenqiu (the "Shenqiu Transfer Agreement"). Pursuant to the Shenqiu Transfer Agreement, Shenqiu sold Xi'an TCH a set of 12 MW BMPG systems (after Xi'an TCH converted the system for BMPG purposes). As consideration for the BMPG systems, Xi'an TCH agreed to pay Shenqiu $10,937,500 (RMB 70 million) in cash in three installments within six months upon the transfer of ownership of the systems. By the end of 2012, all of the consideration was paid. On September 28, 2011, Xi'an TCH and Shenqiu also entered into a BMPG Project Lease Agreement (the "2011 Shenqiu Lease"). Under the 2011 Shenqiu Lease, Xi'an TCH agreed to lease a set of 12MW BMPG systems to Shenqiu at a monthly rental rate of $286,000 (RMB 1,800,000) for 11 years. Upon expiration of the 2011 Shenqiu Lease, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost. In connection with the 2011 Shenqiu Lease, Shenqiu paid one month's rent as a security deposit to Xi'an TCH, in addition to providing personal guarantees.

On October 8, 2012, Xi'an TCH entered into a Letter of Intent for technical reformation of Shenqiu Project Phase II with Shenqiu for technical reformation to enlarge the capacity of the Shenqiu Project Phase I (the "Shenqiu Phase II Project"). The technical reformation involved the construction of another 12MW BMPG system. After the reformation, the generation capacity of the power plant increased to 24MW. The project commenced on October 25, 2012 and was completed during the first quarter of 2013. The total cost of the project was $11.1 million (RMB 68 million). On March 30, 2013, Xi'an TCH and Shenqiu entered into a BMPG Project Lease Agreement (the "2013 Shenqiu Lease"). Under the 2013 Shenqiu Lease, Xi'an TCH agreed to lease the second set of 12MW BMPG systems to Shenqiu for $239,000 (RMB 1.5 million) per month for 9.5 years. When the 2013 Shenqiu Lease expires, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost.

*Shanxi Datong Coal Group Power Generation Projects*

In February 2011, Xi'an TCH entered into an agreement with Shanxi Datong Coal Group Steel Co., Ltd. ("Shanxi Datong") to recycle gas and steam from groups of blast-furnaces and converters at Shanxi Datong's metal refining plants to generate power and pursuant to which Xi'an TCH agreed to install two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and, one 15MW Waste Gas Power Generation ("WGPG") system with a total of 21MW power capacity for an estimated total investment of $28.6 million (RMB 180 million). In June 2013, the two 3MW BPRT power generation systems were completed. The lease term is 30 years, during which time Shanxi Datong will pay a service fee to Xi'an TCH. The service fee was based on an average of 8,000 electricity-generating hours per year and $0.05 (RMB 0.33) per kilowatt hour ("kWh") for the first five years from the completion of each power generation station. For each of the leases, at the 6th, 11th and 21st year anniversary of the date of the lease, the rates will change to RMB 0.3 kWh, 0.27 kWh and 0.25 kWh, respectively. In May 2012, Shanxi Datong and Tianjin Construction Materials Group (Holding) Co., Ltd. were restructured and renamed as Datong Coal Mine Tianjian Iron & Steel Co.,

Ltd. (“Datong”). On June 10, 2013, Xi’an TCH and Shanxi Datong entered into a supplemental agreement relating to the minimum service fee. The minimum service fee per month for the first five years was $0.19 million (RMB 1.2 million), $0.18 million (RMB 1.1 million) for the second five years, $0.16 million (RMB 1.0 million) for the following 10 years and $0.15 million (RMB 0.9 million) for the last 10 years. After 30 years, the units will be transferred to Datong at no additional charge. On May 26, 2015, the 15MW WGPG system was completed.

Due to the change of its strategic plan, Datong notified Xi’an TCH that it would not be able to fulfill its obligations under the Cooperative Agreement and requested to repurchase the two 3MW BPRT systems and one 15MW WGPG system (the “Systems”) from Xi’an TCH and terminate the Cooperative Agreement. On May 29, 2015, Xi’an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the Systems from Xi’an TCH and pay outstanding energy saving service fees of RMB 1.2 million ($193,548) to Xi’an TCH within five business days from the execution of the Repurchase Agreement. The Systems were transferred to Datong for a total price of RMB 250 million ($40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million for one WGPG system. As of June 30, 2015, Xi’an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at the date of transfer was $13.37 million. The Company recorded a $2.98 million gain from two BPRT systems as non-operating income and a $3.02 million gain from the WGPG system as gross profit from the sale.

*Jitie Power Generation Projects*

In May 2013, Xi'an TCH signed a contract with Sinosteel Jilin Ferroalloys Co., Ltd. ("Jitie") to build furnace gas WHPG systems for electricity generation from recycled heat and steam from groups of ferroalloy furnaces and electric furnaces (the "Jitie Project"). According to the contract, Xi'an TCH installed a 7.5 MW and a 3 MW turbine power generation system with a total of 10.5 MW power capacity for an estimated total investment of $9.71 million (RMB 60 million). The lease term is 24 years. During the term of this lease, Jitie will pay a service fee to Xi'an TCH based on the actual generating capacity with a minimum service fee per month of $300,000 (RMB 1.8 million). Xi'an TCH is responsible for the systems operation and will own the power generation systems. In December 2013, the Jitie Project was completed and began operations.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie repurchased the Jitie Project from Xi'an TCH and paid outstanding energy saving service fees of RMB 1.8 million ($294,599) to Xi'an TCH within five business days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project was transferred to Jitie for a total price of RMB 90 million ($14.73 million). In July 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable on the date of the transfer was $13.10 million. The Company recorded a $1.62 million gain from this transaction.

*Yida Coke Oven Gas Power Generation Projects*

On June 28, 2014, Xi'an TCH entered into an Asset Transfer Agreement (the "Transfer Agreement") with Qitaihe City Boli Yida Coal Selection Co., Ltd. ("Yida"), a limited liability company incorporated in China. The Transfer Agreement provided for the sale to Xi'an TCH of a 15 MW coke oven gas power generation station, which had been converted from a 15 MW coal gangue power generation station from Yida. As consideration for the Transfer Asset, Xi'an TCH was to pay to Yida RMB 115 million ($18.69 million) in the form of the common stock shares of the Company at the average closing price per share of the Stock for the 10 trading days prior to the closing date of the transaction ($2.27 per share). The exchange rate between the US Dollar and Chinese RMB in connection with the stock issuance is the rate equal to the middle rate published by the People's Bank of China on the closing date of the assets transfer. Accordingly, the Company issued 8,233,779 shares (the "Shares") for the Yida 15 MW coke oven gas power generation station, the fair value of 8,233,779 shares was $14.49 million based on the stock price at agreement date ($1.76 per share), and was the cost of the power generation station.

On June 28, 2014, Xi'an TCH also entered into a Coke Oven Gas Power Generation Project Lease Agreement (the "Lease Agreement") with Yida. Under the Lease Agreement, Xi'an TCH leased the Transfer Asset to Yida for RMB 3 million ($0.49 million) per month, and the term of the lease is from June 28, 2014 to June 27, 2029. Yida provided an RMB 3 million ($0.49 million) security deposit (without interest) for the lease. Xi'an TCH will transfer the Transfer

Asset back to Yida at no cost at the end of the lease term.

On June 22, 2016, Xi'an TCH entered into a Coal Oven Gas Power Generation Project Repurchase Agreement (the "Repurchase Agreement") with Yida. Under the Repurchase Agreement, Xi'an TCH agreed to transfer to Yida all the project assets for consideration of RMB 112,000,000 ($16.89 million) (the "Transfer Price") with Yida's retention of ownership of the Shares. Yida agreed to make the following payments: (i) the outstanding monthly leasing fees for April and May 2016 in total of RMB 6,000,000 ($0.90 million) to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; (ii) a payment of RMB 50,000,000 ($7.54 million) of the Transfer Price to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; and (iii) a payment of the remaining RMB 62,000,000 ($9.35 million) of the Transfer Price to Xi'an TCH within 15 business days from the execution of the Repurchase Agreement. Under the Repurchase Agreement, ownership of the project assets will be transferred from Xi'an TCH to Yida within 3 business days after Xi'an TCH receives the full Transfer Price and the outstanding monthly leasing fees. As of June 30, 2016, Xi'an TCH had received the outstanding monthly leasing fees for April and May 2016 in the amount of $0.90 million and the first payment of the Transfer Price in the amount of $7.54 million. On July 11, 2016, the Company received the second payment of the Transfer Price in the amount of $9.35 million. The Company recorded a $0.42 million loss from this transaction.

*The Fund Management Company*

On June 25, 2013, Xi'an TCH and HongyuanHuifu Venture Capital Co. Ltd. ("HongyuanHuifu") jointly established Hongyuan Recycling Energy Investment Management Beijing Co., Ltd. (the "Fund Management Company") with registered capital of RMB 10 million. Xi'an TCH made an initial capital contribution of RMB 4 million ($650,000) and has a 40% ownership interest in the Fund Management Company. With respect to the Fund Management Company, voting rights and dividend rights are allocated 80% and 20% between HongyuanHuifu and Xi'an TCH, respectively.

The Fund Management Company serves as the general partner of Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF Fund"), a limited liability partnership established on July 18, 2013 in Beijing. The Fund Management Company made an initial capital contribution of RMB 5 million ($830,000) to the HYREF Fund. An initial total amount of RMB 460 million ($75 million) has been fully subscribed by all partners for the HYREF Fund. The HYREF Fund has three limited partners: (1) China Orient Asset Management Co., Ltd., which made an initial capital contribution of RMB 280 million ($46.67 million) to the HYREF Fund and is a preferred limited partner; (2) HongyuanHuifu, which made an initial capital contribution of RMB 100 million ($16.67 million) to the HYREF Fund and is an ordinary limited partner; and (3) the Company's wholly-owned subsidiary, Xi'an TCH, which made an initial capital contribution of RMB 75 million ($12.5 million) to the HYREF Fund and is a secondary limited partner. The term of the HYREF Fund's partnership is six years from the date of its establishment, expiring on July 18, 2019. The current term is four years from the August 2016 date of contribution for the preferred limited partner, or four years from the date of contribution for the ordinary limited partner. The total size of the HYREF Fund is RMB 460 million ($76.66 million). The HYREF Fund was formed for the purpose of investing in Xi'an Zhonghong New Energy Technology Co., Ltd., a 90% owned subsidiary of Xi'an TCH, for the construction of two coke dry quenching ("CDQ") WHPG stations with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu") and one CDQ WHPG station with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli").

*Chengli Waste Heat Power Generation Projects*

On July 19, 2013, Xi'an TCH formed a new company "Xi'an Zhonghong New Energy Technology Co., Ltd." ("Zhonghong") with registered capital of RMB 30 million ($4.85 million). Xi'an TCH paid RMB 27 million ($4.37 million) and owns 90% of Zhonghong. Zhonghong is engaged to provide energy saving solution and services, including constructing, selling and leasing energy saving systems and equipment to customers.

On July 24, 2013, Zhonghong entered into a Cooperative Agreement of CDQ and CDQ WHPG Project with Boxing County Chengli Gas Supply Co., Ltd. ("Chengli"). The parties entered into a supplement agreement on July 26, 2013. Pursuant to these agreements, Zhonghong will design, build and maintain a 25 MW CDQ system and a CDQ WHPG system to supply power to Chengli, and Chengli will pay energy saving fees (the "Chengli Project"). Chengli will

contract the operation of the system to a third party contractor that is mutually agreed to by Zhonghong. In addition, Chengli will provide the land for the CDQ system and CDQ WHPG system at no cost to Zhonghong. The term of the Agreements is for 20 years. The first 800 million watt hours generated by the Chengli Project will be charged at RMB 0.42 ($0.068) per kilowatt hour (excluding tax); thereafter, the energy saving fee will be RMB 0.20 ($0.036) per kilowatt hour (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours per year due to a reason attributable to Chengli, then time charged shall be 8,000 hours a year, and if it is less than 8,000 hours due to a reason attributable to Zhonghong, then it shall be charged at actual operating hours. The construction of the Chengli Project was completed in the second quarter of 2015 and the project is currently under commissioning tests were successfully completed in the first quarter of 2017. The Company expects the Chengli Project to be operational in the second quarter of 2017, provided that the required power generating license is granted. When operations begin, Chengli shall ensure its coking production line works properly and that working hours for the CDQ system are at least 8,000 hours per year, and Zhonghong shall ensure that working hours and the CDQ WHPG system will be at least 7,200 hours per year.

On July 22, 2013, Zhonghong entered into an Engineering, Procurement and Construction ("EPC") General Contractor Agreement for the Boxing County Chengli Gas Supply Co., Ltd. CDQ Power Generation Project (the "Huaxin Project") with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong, as the owner of the Huaxin Project, contracted EPC services for a CDQ system and a 25 MW CDQ WHPG system for Chengli to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Huaxin Project and ensure the CDQ system and CDQ WHPG system for Chengli meet the inspection and acceptance requirements and work normally. The Huaxin Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 200 million ($33.34 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs. We anticipate that Huaxin Project will be operational in the second quarter of 2017.

*Tianyu Waste Heat Power Generation Project*

On July 19, 2013, Zhonghong entered into a Cooperative Agreement (the "Tianyu Agreement") for Energy Management of CDQ and CDQ WHPG Project with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. ("Tianyu"). Pursuant to the Tianyu Agreement, Zhonghong will design, build, operate and maintain two sets of 25 MW CDQ systems and CDQ WHPG systems for two subsidiaries of Tianyu – Xuzhou Tian'an Chemical Co., Ltd. ("Xuzhou Tian'an") and Xuzhou Huayu Coking Co., Ltd ("Xuzhou Huayu") – to be located at Xuzhou Tian'an and Xuzhou Huayu's respective locations (the "Tianyu Project"). Upon completion of the Tianyu Project, Zhonghong will charge Tianyu an energy saving service fee of RMB 0.534 ($0.087) per kilowatt hour (excluding tax). The operating time will be based upon an average 8,000 hours annually for each of Xuzhou Tian'an and Xuzhou Huayu. If the operating time is less than 8,000 hours per year due to a reason attributable to Tianyu, then time charged will be 8,000 hours a year. The term of the Tianyu Agreement is 20 years. The construction of the Xuzhou Tian'an Project is anticipated to be completed by the third quarter of 2017. Xuzhou Tian'an will provide the land for the CDQ and CDQ WHPG systems for free. Xuzhou Tian'an also guarantees that it will purchase all of the power generated by the CDQ WHPG systems. The Xuzhou Huayu Project is currently on hold due to a conflict between Xuzhou Huayu Coking Co., Ltd and local residents on certain pollution-related issues. The local government has acted in its capacity to coordinate the resolution of this issue. The local residents were requested to move out from the hygienic buffer zone of the project location with compensatory payments from the government. Xuzhou Huayu was required to stop production and implement technical innovations of pollution discharge including sewage treatment, dust collection, noise control, and recycling of coal gas. Currently, some local residents have moved out. Xuzhou Huayu has completed the implementation of the technical innovations of sewage treatment, dust collection, and noice control, and expects to complete the recycling of coal gas by the end of June 2017. Once Huayu obtains government's acceptance and approval of the technical innovations, the project will resume.

On July 22, 2013, Zhonghong entered into an EPC General Contractor Agreement for the Tianyu Project with Xi'an Huaxin New Energy Co., Ltd. ("Huaxin"). Zhonghong, as the owner of the Tianyu Project, contracted EPC services for two CDQ systems and two 25 MW CDQ WHPG systems for Tianyu to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Tianyu Project and ensure the CDQ and CDQ WHPG systems for Tianyu

meet the inspection and acceptance requirements and work normally. The Tianyu Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 400 million ($66.68 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs.

*Zhongtai Waste Heat Power Generation Energy Management Cooperative Agreement*

On December 6, 2013, Xi'an entered into a CDQ and WHPG Energy Management Cooperative Agreement (the "Zhongtai Agreement") with Xuzhou Zhongtai Energy Technology Co., Ltd. ("Zhongtai"), a limited liability company incorporated in Jiangsu Province, China.

Pursuant to the Zhongtai Agreement, Xi'an TCH will design, build and maintain a 150 ton per hour CDQ system and a 25 MW CDQ WHPG system and sell the power to Zhongtai, and Xi'an TCH will also build a furnace to generate steam from the waste heat of the smoke pipeline and sell the steam to Zhongtai.

The construction period of the Project is expected to be 18 months from the date when conditions are ready for construction to begin. Zhongtai will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The payment term is 20 years. For the first 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.534 ($0.089) per kilowatt hour (including value added tax) for the power generated from the system. For the second 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.402 ($0.067) per kilowatt hour (including value added tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Zhongtai shall also pay an energy saving service fee for the steam supplied by Xi'an TCH at RMB 100 ($16.67) per ton (including value added tax). Zhongtai and its parent company will provide guarantees to ensure Zhongtai will fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Zhongtai at RMB 1 ($0.16). Zhongtai shall provide waste heat to the systems for no less than 8,000 hours per year and waste gas volume no less than 150,000 Nm3 per hour with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Zhongtai wants to terminate the Zhongtai Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: (1) if it is less than five years into the term when Zhongtai requests termination, Zhongtai shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's annual investment return times five years minus the years in which the system has already operated); or 2) if it is more than five years into the term when Zhongtai requests the termination, Zhongtai shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin (the "Transfer Agreement"). Under the Transfer Agreement, Xi'an TCH agreed to transfer to Zhongtai all of the assets associated with the CDQ Waste Heat Power Generation Project (the "Project"), which is under construction pursuant to the Zhongtai Agreement. Xi'an Huaxin will continue to construct and complete the Project and Xi'an TCH agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai agreed to pay to Xi'an TCH an aggregate transfer price of RMB 167,360,000 ($25.77 million) including payments of: (i) RMB 152,360,000 ($23.46 million) for the construction of the Project; and (ii) RMB 15,000,000 ($2.31 million) as payment for partial loan interest accrued during the construction period. Those amounts have been, or will be, paid by Zhongtai to Xi'an TCH according to the following schedule: (a) RMB 50,000,000 ($7.70 million) was paid within 20 business days after the Transfer Agreement was signed; (b) RMB 30,000,000 ($4.32 million) will be paid within 20 business days after the Project is completed, but no later than July 30, 2016; and (c) RMB 87,360,000 ($13.45 million) will be paid no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments from Zhongtai to Xi'an TCH. The ownership of the Project was conditionally transferred to Zhongtai following the initial payment of RMB 50,000,000 ($7.70 million) by Zhongtai to Xi'an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes all payments pursuant to the Transfer Agreement. As of December 31, 2016, Xi'an TCH had received the first payment of $7.70 million and the second payment of $4.32 million. The Company recorded a $2.82 million loss from this transaction.

*Rongfeng CDQ Power Generation Energy Management Cooperative Agreement*

On December 12, 2013, Xi'an TCH entered into a CDQ Power Generation Energy Management Cooperative Agreement with Tangshan Rongfeng Iron & Steel Co., Ltd. (the "Rongfeng Agreement"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Rongfeng Agreement, Xi'an TCH will design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Rongfeng. The construction period of the Project is expected to be 18 months after the Agreement takes effect and from the date when conditions are ready for construction to begin.

Rongfeng will start to pay an energy saving service fee from the date when the WHPG station passes the required 72-hour test run. The payment term is 20 years. For the first 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.582 ($0.095) per kilowatt hour (including tax) for the power generated from the system. For the second 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.432 ($0.071) per kWh (including tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Rongfeng and its parent company will provide guarantees to ensure Rongfeng will fulfill its obligations under the Rongfeng Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Rongfeng at RMB 1. Rongfeng shall provide waste heat to the systems for no less than 8,000 hours per year with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Rongfeng wants to terminate the Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it is less than five years (including five years) into the term when Rongfeng requests termination, Rongfeng shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system has already operated); 2) if it is more than five years into the term when Rongfeng requests the termination, Rongfeng shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH would transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng is to pay to Xi'an TCH an aggregate purchase price of RMB 165,200, 000 ($25.45 million), whereby (a) RMB 65,200,000 ($10.05 million) was to be paid by Rongfeng to Xi'an TCH within 20 business days after signing the Transfer Agreement, (b) RMB 50,000,000 ($7.70 million) is to be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest stockholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 ($10.05 million) by Rongfeng to Xi'an TCH and the full ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. The Company recorded a $3.78 million loss from this transaction in 2015. As of December 31, 2016, the Company had received full payment of $25.45 million.

*Baoliyuan CDQ Power Generation Energy Management Cooperative Agreement*

On March 26, 2014, Xi'an TCH entered into a CDQ Waste Heat Recycling Project Energy Management Cooperative Agreement with Tangshan Baoliyuan Coking Co., Ltd. ("Baoliyuan"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Agreement, Xi'an TCH agreed to design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Baoliyuan (the "CDQ Project") and Xi'an TCH will also build a high scale waste water treatment system for Baoliyuan and charge monthly payments for two years (the "Waste Water Treatment Project").

Baoliyuan agreed to pay an energy saving fee from the date when the WHPG station passed the required 72-hour test run. The payment term was twenty years and Baoliyuan agreed to pay an energy saving fee at RMB 0.7 ($0.114) per kilowatt hour (including tax) for the power generated from the system, from which Xi'an TCH shall take 92.86% and Baoliyuan was to take 7.14% as parties to share the energy saving benefits. During the term of the contract the energy saving fee was to be adjusted at the same percentage as the change of local grid electricity price. Baoliyuan was to provide guarantees to ensure it would fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH was to transfer the systems to Baoliyuan at RMB 1.

Baoliyuan was to provide waste heat to the systems for no less than 8,000 hours per year and coking production was to reach 80% of its capacity. If these requirements were not met, the energy saving fee was to be calculated according to such hours and capacity.

Baoliyuan could terminate the Agreement prior to the end of the term by providing Xi'an TCH with 60 days' notice and upon the payment of the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it was less than five years (including five years) into the term when Baoliyuan requested termination, Baoliyuan was to pay Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system had already operated); 2) if it was more than five years into the term when Baoliyuan requested the termination, Baoliyuan was to pay Xi'an TCH's total investment amount minus total amortization cost (the amortization period is twenty years).

From the first month of the completion of Waste Water Treatment Project, Baoliyuan was to pay a fixed monthly fee for the waste water treatment system at RMB 1.05 million per month ($171,010) for the first 12 months and RMB 940,000 per month ($153,094) for the next 12 months.

The Baoliyuan project was cancelled in May 2015 because the project required blasting and leveling of a mountain and Baoliyuan could not obtain all the necessary permits for the construction.

*Formation of Zhongxun*

On March 24, 2014, Xi'an TCH incorporated a new subsidiary, Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun") with registered capital of $5,695,502 (RMB 35,000,000). Zhongxun is 100% owned by Xi'an TCH and is mainly engaged in project investment, investment management, economic information consulting, and technical services. Zhongxun has not yet commenced operations as of the date of this report.

*Formation of Yinghua*

On February 11, 2015, the Company incorporated a new subsidiary, Shanghai Yinghua Financial Leasing Co., Ltd ("Yinghua") with registered capital of $30,000,000, to be paid within ten years from the date the business license is issued. Yinghua is 100% owned by the Company and is mainly engaged in financial leasing, purchase of financial leasing assets, disposal and repair of financial leasing assets, consulting and ensuring of financial leasing transactions, and related factoring business. Yinghua has not yet commenced operations as of the date of this report.

*Summary of Sales-Type Lease at December 31, 2016*

*Status at December 31, 2016*

As of December 31, 2016, Xi'an TCH leases the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11-year term); and (iii) Shenqiu Phase II (9.5-year term). In addition, as of December 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of 20 years.

*Asset Repurchase Agreement*

During the years ended December 31, 2016 and 2015, the Company entered into the following Asset Repurchase Agreements:

On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and one 15MW WGPG system (the "Systems") from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million ($193,548) to Xi'an TCH within five business days from the execution of the Repurchase Agreement. The Systems would be transferred to Datong for a total price of RMB 250 million ($40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million ($24.54 million) for one WGPG system. Datong paid the repurchase price to Xi'an TCH and, as of June 30, 2015, the systems were transferred. The outstanding balance of net investment receivable on the date of transfer was $13.37 million. The Company recorded a $2.98 million gain from two BPRT systems as non-operating income and a $3.02 million gain from the WGPG system as gross profit from the sale.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie agreed to repurchase the Jitie Project from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.8 million ($294,599) to Xi'an TCH within five business days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project would be transferred to Jitie for a total price of RMB 90 million ($14.73 million), and Jitie agreed to pay RMB 45 million within five business days from the execution of the Repurchase Agreement and pay another RMB 45 million within 15 business days from the execution of the Repurchase Agreement. As of June 30, 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at date of transfer was $13.10 million. The Company recorded a $1.62 million gain from this transaction.

On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH agreed to transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng will pay to Xi'an TCH an aggregate purchase price of RMB 165,200, 000 ($25.45 million), whereby (a) RMB 65,200,000 ($10.05 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Transfer Agreement is signed, (b) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 ($7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest stockholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 ($10.05 million) by Rongfeng to Xi'an TCH and the full ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. As of December 31, 2016, the Company received full payment of $25.45 million.

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin (the "Transfer Agreement"). Under the Transfer Agreement, Xi'an TCH agreed to transfer to Zhongtai all of the assets associated with the CDQ Waste Heat Power Generation Project (the "Project"), which is under construction pursuant to the Zhongtai Agreement. Xi'an Huaxin will continue to construct and complete the Project and Xi'an TCH agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai agreed to pay to Xi'an TCH an aggregate transfer price of RMB 167,360,000 ($25.77 million) including payments of: (i) RMB 152,360,000 ($23.46 million) for the construction of the Project; and (ii) RMB 15,000,000 ($2.31 million) as payment for partial loan interest accrued during the construction period. Those amounts have been, or will be, paid by Zhongtai to Xi'an TCH according to the following schedule: (a) RMB 50,000,000 ($7.70 million) was paid within 20 business days after the Transfer Agreement was signed; (b) RMB 30,000,000 ($4.32 million) will be paid within 20 business days after the Project is completed, but no later than July 30, 2016; and (c) RMB 87,360,000 ($13.45 million) will be paid no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments from Zhongtai to Xi'an TCH. The ownership of the Project was conditionally transferred to Zhongtai following the initial payment of RMB 50,000,000 ($7.70 million) by Zhongtai to Xi'an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes all payments pursuant to the Transfer Agreement. As of December 31, 2016, Xi'an TCH had received the first payment of $7.70 million and the second payment of $4.32 million. The Company recorded a $2.82 million loss from this transaction.

On June 22 2016, Xi'an TCH entered into a Coal Oven Gas Power Generation Project Repurchase Agreement (the "Repurchase Agreement") with Yida. Under the Repurchase Agreement, Xi'an TCH agreed to transfer to Yida all the project assets for consideration of RMB 112,000,000 ($16.89 million) (the "Transfer Price") with Yida's retention of ownership of the Shares. Yida agreed to make the following payments: (i) the outstanding monthly leasing fees for April and May 2016 in total of RMB 6,000,000 ($0.90 million) to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; (ii) a payment of RMB 50,000,000 ($7.54 million) of the Transfer Price to Xi'an TCH within 5 business days from the execution of the Repurchase Agreement; and (iii) a payment of the remaining RMB 62,000,000 ($9.35 million) of the Transfer Price to Xi'an TCH within 15 business days from the

execution of the Repurchase Agreement. Under the Repurchase Agreement, ownership of the project assets will be transferred from Xi'an TCH to Yida within 3 business days after Xi'an TCH receives the full Transfer Price and the outstanding monthly leasing fees. As of December 31, 2016, Xi'an TCH had received the outstanding monthly leasing fees for April and May 2016 in the amount of $0.90 million and the first payment of the Transfer Price in the amount of $7.54 million, and the second payment of the Transfer Price in the amount of $9.35 million. The Company recorded a $0.42 million loss from this transaction.

*Reverse Stock Split*

On May 24, 2016, the Company filed a Certificate of Change with the Secretary of State of Nevada with an effective date of May 25, 2016 (the "Effective Date"), at which time the Company affected a 1-for-10 reverse stock split of the Company's authorized shares of common stock, par value $0.001 (the "Common Stock"), accompanied by a corresponding decrease in the Company's issued and outstanding shares of Common Stock (the "Reverse Stock Split").

The Company has rounded up to the next full share of the Company's Common Stock any fractional shares resulting from the Reverse Stock Split. The Reverse Stock Split was retroactively stated for the periods covered by the financial statements included herein.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and pursuant to the rules and regulations of the SEC for annual financial statements.

Basis of Consolidation

The consolidated financial statements include the accounts of CREG and its subsidiaries, Shanghai Yinghua Financial Leasing Co., Ltd. ("Yinghua") and Sifang Holdings, its wholly owned subsidiaries, Huahong New Energy Technology Co., Ltd. ("Huahong") and Shanghai TCH, Shanghai TCH's wholly-owned subsidiary, Xi'an TCH Energy Tech Co., Ltd. ("Xi'an TCH") and Xi'an TCH's subsidiaries, Erdos TCH Energy Saving Development Co., Ltd ("Erdos TCH"), 100% owned by Xi'an TCH (See note 1), Zhonghong, 90% owned by Xi'an TCH, and Zhongxun, 100% owned by Xi'an TCH. Substantially all of the Company's revenues are derived from the operations of Shanghai TCH and its subsidiaries, which represent substantially all of the Company's consolidated assets and liabilities as of December 31, 2016 and 2015, respectively. All significant inter-company accounts and transactions were eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

*Sales-type Leasing and Related Revenue Recognition*

The Company constructs and leases waste energy recycling power generating projects to its customers. The Company typically transfers ownership of the waste energy recycling power generating projects to its customers at the end of the lease. The investment in these projects is recorded as investment in sales-type leases in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 840*, "Lease*s*,"* and its various amendments and interpretations. The Company finances construction of waste energy recycling power generating projects. The sales and cost of sales are recognized at the inception of the lease. The investment in sales-type leases consists of the sum of the minimum lease payments receivable less unearned interest income and estimated executory cost. Minimum lease payments are part of the lease agreement between the Company (as the lessor) and the customer (as the lessee). The discount rate implicit in the lease is used to calculate the present value of minimum lease payments. The minimum lease payments consist of the gross lease payments net of executory costs and contingent rentals, if any. Unearned interest income is amortized to income over the lease term to produce a constant periodic rate of return on net investment in the lease. While revenue is recognized at the inception of the lease, the cash flow from the sales-type lease occurs over the course of the lease, which results in interest income and reduction of receivables. Revenue is recognized net of sales tax.

*Contingent Rental Income*

The Company records income from actual electricity usage in addition to minimum lease payments of each project as contingent rental income in the period contingent rental income is earned. Contingent rent is not part of minimum lease payments.

Cash and Equivalents

Cash and equivalents includes 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

As of December 31, 2016, the Company had accounts receivable of $12,593,340 (from sale of CDQ and a CDQ WHPG system to Zhongtai). As of December 31, 2015, the Company had accounts receivable of $15,399,778 (from sale of CDQ and a CDQ WHPG system to Rongfeng), respectively.

Interest Receivable on Sales Type Leases

As of December 31, 2016, the interest receivable on sales type leases was $4,621,491, mainly representing recognized but not yet collected interest income for the Pucheng and Shenqiu systems. As of December 31, 2015, the interest receivable on sales type leases was $555,451.

The Company maintains reserves for potential credit losses on receivables. Management reviews the composition of receivables and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

Concentration of Credit Risk

Cash includes cash on hand and demand deposits in accounts maintained within China. Balances at financial institutions within China are not covered by insurance. The Company has not experienced any losses in such accounts.

Certain other financial instruments, which subject the Company to concentration of credit risk, consist of accounts and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable.

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

Property and Equipment

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

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

Impairment of Long-lived Assets

In accordance with FASB ASC Topic 360, *"Property, Plant, and Equipment*," the Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying amount of the asset. As a result of modified lease terms of Erdos TCH, there was no minimum lease payments since lease payments that depend on a factor directly related to the future use of the leased property are contingent rentals and, accordingly, are excluded from minimum lease payments in their entirety. The Company wrote off the net investment receivables of these leases at the lease modification date as an asset impairment loss for $57,368,330. There was no impairment as of December 31, 2015.

Notes Payable – Banker's Acceptances

The Company endorses banker's acceptances that are issued from a bank to vendors as payment for its obligations. Most of the banker's acceptances have maturity dates of less than six months following their issuance.

Cost of Sales

Cost of sales consists primarily of the direct material of the power generating system and expenses incurred directly for project construction for sales-type leasing and sales tax and additions for contingent rental income.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *"Income Taxes,"* which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Under FASB ASC Topic 740, when tax returns are filed, it is likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits is classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of income. As of December 31, 2016 and 2015, the Company had not taken any uncertain positions that would necessitate recording of tax related liability.

Noncontrolling Interests

The Company follows FASB ASC Topic 810, *"Consolidation,"* which established new standards governing the accounting for and reporting of noncontrolling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially-owned consolidated subsidiary be allocated to NCIs even when such allocation might result in a deficit balance.

The net income (loss) attributed to NCIs was separately designated in the accompanying statements of income and comprehensive income (loss). Losses attributable to NCIs in a subsidiary may exceed an NCI's interests in the subsidiary's equity. The excess attributable to NCIs is attributed to those interests. NCIs shall continue to be attributed their share of losses even if that attribution results in a deficit NCI balance.

Statement of Cash Flows

In accordance with FASB ASC Topic 230, *"Statement of Cash Flows,"* cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and equivalents, restricted cash, accounts receivable, other receivables, accounts payable, accrued liabilities and short-term debts, the carrying amounts approximate their fair values due to their short maturities. Receivables on sales-type leases are based on interest rates implicit in the lease.

FASB ASC Topic 820, *"Fair Value Measurements and Disclosures,"* requires disclosure of the fair value ("FV") of financial instruments held by the Company. FASB ASC Topic 825, *"Financial Instruments,"* defines FV, and establishes a three-level valuation hierarchy for disclosures of FV measurement that enhances disclosure requirements for FV measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their FV because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to FV measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, *"Distinguishing Liabilities from Equity,"* and ASC 815, *"Derivatives and Hedging."*

The following are the considerations with respect to disclosures of FV of long-term debt obligations:

As of December 31, 2016, the Company's long-term debt obligations consisted of the Zhonghong entrusted loan of $47.86 million. As of December 31, 2015, the Company's long-term debt obligations consisted of the following: (i) various long-term bank loans and Zhongrong International Trust Co., Ltd. ("ZRIT") trust loan payable of $18.19 million, and (ii) Zhonghong entrusted loan of $58.83 million.

FV measurements and approximations for certain financial instruments are based on what a reporting entity would likely have to pay to transfer the financial obligation to an entity with a comparable credit rating. The Company's bank loans and trust loans payable are privately held (i.e., nonpublic) debt; therefore, pricing inputs are not observable. For this reason, the Company classified bank loans and trust loans payable as a Level 3 FV measurement in the valuation hierarchy.

For the Company's long-term bank loans, ZRIT trust loan and Zhonghong entrusted loans noted above, the Company believes the carrying amounts approximate their FV. Based on the Company's understanding of the credit markets, the Company's business is in a sector (energy-saving green) that is supported by the PRC government and the lending bank, the Company believes it could have obtained similar loans on similar terms and interest rates. In addition, in connection with the FV measurement, the Company considered nonperformance risk (including credit risk) relating to the debt obligations, including the following: (i) the Company is considered a low credit risk customer to the lending bank and its creditors; (ii) the Company has a good history of making timely payments and have never defaulted on any loans; and (iii) the Company has a stable and continuous cash inflow from collections from its sales-type lease of energy saving projects.

As of December 31, 2016, and 2015, the Company did not identify any assets or liabilities that are required to be presented on the balance sheet at FV.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with FASB ASC Topic 718 *"Compensation—Stock Compensation,"* and FASB ASC Topic 505, "*Equity."* The Company recognizes in its statement of operations FV at the grant date for stock options and other equity-based compensation issued to employees and non-employees.

Basic and Diluted Earnings (loss) per Share

The Company presents net income (loss) per share ("EPS") in accordance with FASB ASC Topic 260, *"Earning Per Share."* Accordingly, basic income (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of shares outstanding, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income by the weighted-average number of common shares outstanding as well as common share equivalents outstanding for the period determined using the treasury-stock method for stock options and warrants and the if-converted method for convertible notes. The Company made an accounting policy election to use the if-converted method for convertible securities that are eligible to receive common stock dividends, if declared. Diluted EPS reflect the potential dilution that could occur based on the exercise of stock options or warrants or conversion of convertible securities using the if-converted method.

The following table presents a reconciliation of basic and diluted EPS for the years ended December 31, 2016 and 2015:

| | Year Ended December 31, | |
|---|---|---|
| | 2016 (Restated) | 2015 |
| Net income (loss) | $ (48,295,432 ) | $ 18,397,425 |
| Weighted average shares outstanding – basic | 8,310,198 | 8,308,116 |
| Effect of dilutive securities: | | |
| Options granted | - | - |
| Weighted average shares outstanding – diluted | 8,310,198 | 8,308,116 |
| Earnings (loss) per share – basic | $ (5.81 ) | $ 2.21 |
| Earnings (loss) per share – diluted | $ (5.81 ) | $ 2.21 |

Foreign Currency Translation and Comprehensive Income (Loss)

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

The Company uses FASB ASC Topic 220, *"Comprehensive Income."* Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders.

Segment Reporting

FASB ASC Topic 280, *"Segment Reporting,"* requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. FASB ASC Topic 280 has no effect on the Company's financial statements as substantially all of the Company's operations are conducted in one industry segment. All of the Company's assets are located in the PRC.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its Consolidated Financial Statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted but requires all elements of the amendments to be adopted at once rather than individually. The Company is evaluating the effect that ASU No. 2016-09 will have on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the potential impact of ASU 2016-15 on its financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the SEC did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

**3. RESTRICTED CASH**

Restricted cash is held by the banks as collateral to issue bank acceptances and bank loans. The Company endorses bank acceptances to vendors as payment of its obligations. Most of the bank acceptances have maturities of less than six months. As of December 31, 2016 and 2015, the Company had restricted cash of $0 and $1.13 million.

**4. INVESTMENT IN SALES-TYPE LEASES, NET**

Under sales-type leases, Xi'an TCH leases the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11-year term); and (iii) Shenqiu Phase II (9.5-year term). In addition, as of December 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of twenty years. The components of the net investment in sales-type leases as of December 31, 2016 and 2015 are as follows:

| | 2016 (Restated) | 2015 |
|---|---|---|
| Total future minimum lease payments receivable | $ 96,886,262 | $ 387,612,418 |
| Less: executory cost | (6,215,345 ) | (93,054,738 ) |
| Less: unearned interest income | (33,407,391 ) | (154,799,027 ) |
| Investment in sales-type leases, net | 57,263,526 | 139,758,653 |
| Current portion | 8,103,583 | 6,679,019 |
| Noncurrent portion | $ 49,161,943 | $ 133,079,634 |

As of December 31, 2016, the future minimum rentals to be received on non-cancelable sales-type leases by years are as follows:

| | |
|---|---|
| 2017 | $ 20,469,944 |
| 2018 | 12,281,966 |
| 2019 | 12,281,966 |
| 2020 | 12,281,966 |
| 2021 | 12,281,966 |
| Thereafter | 27,288,454 |
| Total | $ 96,886,262 |

**5. PREPAID EXPENSES**

Prepaid expenses mainly consisted of prepayment for office rental and decorations, taxes, and consulting fees for the Company's HYREF fund completed in July 2013. Before the HYREF Fund released the money to Zhonghong, Xi'an TCH paid 2% of the funds raised for Zhonghong, i.e. RMB 9.2 million ($1.5 million) to the Fund Management Company as a consulting fee and it shall pay such 2% on the amount of funds actually contributed as an annual management fee on every 365-day anniversary thereafter until Zhonghong fully repays the loan, and the HYREF Fund no longer has an ownership interest in Zhonghong. The Company had $0.65 million and $0.83 million prepaid consulting expense as of December 31, 2016 and 2015, respectively. The Company had $32,050 and $0.30 million prepaid tax as of December 31, 2016 and 2015.

**6. OTHER RECEIVABLES**

As of December 31, 2016, other receivables mainly consisted of (i) advance to third parties of $0.53 million, bearing no interest, payable upon demand; and (ii) advances to employees of $0.02 million, bearing no interest, payable upon demand. As of December 31, 2015, other receivables mainly consisted of advance to third party of $0.05 million, bearing no interest, payable upon demand; advance to employees of $0.04 million, bearing no interest, payable upon demand; and maintenance cost and tax receivable of $0.47 million.

**7. LONG TERM INVESTMENT**

On June 25, 2013, Xi'an TCH with HongyuanHuifu Venture Capital Co. Ltd ("HongyuanHuifu") jointly established Hongyuan Recycling Energy Investment Management Beijing Co., Ltd (the "Fund Management Company") with registered capital of RMB 10 million ($1.6 million), to manage a fund that will be used for financing CDQ WHPG projects. Xi'an TCH made an initial capital contribution of RMB 4 million ($0.65 million) and has a 40% ownership interest in the Fund Management Company. Voting rights and dividend rights are allocated between HongyuanHuifu and Xi'an TCH at 80% and 20%, respectively. The Company accounted for this investment using the equity method. The Company recorded $198,254 equity based investment income during the year ended December 31, 2016; however, it was eliminated with the financial fee of Zhonghong for the Statement of Income as 100% of Fund Management Company's revenue is from Zhonghong's financial fee and Zhonghong is 91.7% owned by Xi'an TCH (see Note 12). Xi'an TCH paid a $1.6 million one-time commission (recorded as other expense) to the Fund Management Company during 2013 for initiating and completing the Fund financing for the Company.

On July 18, 2013, the HYREF Fund was established as a limited liability partnership in Beijing. Pursuant to the Partnership Agreement, the HYREF Fund has a general partner, the Fund Management Company, which made an initial capital contribution of RMB 5 million ($0.83 million) to the HYREF Fund. The HYREF Fund has three limited partners: (1) China Orient Asset Management Co., Ltd., which made an initial capital contribution of RMB 280 million ($46.67 million) and is a preferred limited partner, (2) HongyuanHuifu, which made an initial capital contribution of RMB 100 million ($16.67 million) and is an ordinary limited partner and (3) the Company's wholly-owned subsidiary, Xian TCH, which made an initial capital contribution of RMB 75 million ($10.81 million) and is a secondary limited partner. The term of the HYREF Fund's partnership is six years from the date of its establishment, July 18, 2013. The current term for the preferred limited partner is four years from the August 2016 date of its contribution and for the ordinary limited partner is four years from the date of its contribution. Unless otherwise approved by the general partner (the Fund Management Company), upon the expiration of their respective terms, each partner shall exit from the partnership automatically. The total size of the HYREF Fund is RMB 460 million ($75.0 million), and the purpose of the HYREF Fund is to invest in Zhonghong for constructing 3 new CDQ WHPG projects. Xi'an TCH owns 16.3% of the HYREF Fund. The Company accounted for this investment using the cost method. The Company netted off the investment of RMB 75 million ($10.81 million) by Xi'an TCH with the entrusted loan payable of the HYREF Fund.

**8. CONSTRUCTION IN PROGRESS**

Construction in progress was for constructing power generation systems. As of December 31, 2016 and 2015, the Company's construction in progress included:

| | 2016 | 2015 |
|---|---|---|
| Xuzhou Zhongtai | $ - | $ 28,100,201 |
| Xuzhou Huayu | 23,525,925 | 29,752,270 |
| Xuzhou Tian'an | 32,471,977 | 26,909,193 |
| Boxing County Chengli | 30,495,280 | 30,760,404 |
| Total | $ 86,493,182 | $ 115,522,068 |

As of December 31, 2016, the Company was committed to pay an additional (1) $11.53 million for Xuzhou Huayu project, (2) $4.00 million for Xuzhou Tian'an project, and (3) $4.45 million for Boxing County Chengli project.

**9. TAXES PAYABLE**

Taxes payable consisted of the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Income | $773,397 | $405,431 |
| Business | - | 249,141 |
| VAT | 366,230 | 369,595 |
| Other | 63,050 | 34,250 |
| Total | $1,202,677 | $1,058,417 |

**10. ACCRUED LIABILITIES AND OTHER PAYABLES**

Accrued liabilities and other payables consisted of the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Employee training, labor union expenditure and social insurance payable | $760,021 | $749,930 |
| Consulting, auditing, and legal expenses | 468,393 | 1,342,395 |
| Accrued payroll and welfare | 322,605 | 278,819 |
| Accrued interest expense | 1,569 | 682,949 |
| Other | 43,992 | 145,302 |
| Total | $1,596,580 | $3,199,395 |

**11. DEFERRED TAX LIABILITY, NET**

Deferred tax asset resulted from accrued employee social insurance that can be deducted for tax purposes in the future, and the difference between tax and accounting basis of cost of fixed assets which was capitalized for tax purposes and expensed as part of cost of systems in accordance with US GAAP. Deferred tax liability arose from the difference between tax and accounting basis of net investment in sales-type leases.

As of December 31, 2016 and 2015, deferred tax liability consisted of the following:

| | 2016 (Restated) | 2015 |
|---|---|---|
| Deferred tax asset — current (accrual of employee social insurance) | $ 167,980 | $ 98,372 |
| Deferred tax liability — current (net investment in sales-type leases) | (1,265,091) | (1,636,477) |
| Deferred tax liability, net of deferred tax asset – current | $ (1,097,111) | $ (1,538,105) |
| | | |
| Deferred tax asset — noncurrent (depreciation of fixed assets) | $ 10,322,245 | $ 22,498,560 |
| Deferred tax liability — noncurrent (net investment in sales-type leases) | (12,290,486) | (33,269,908) |
| Deferred tax liability, net of deferred tax asset – noncurrent | $ (1,968,241) | $ (10,771,348) |

**12. LOANS PAYABLE**

*Entrusted Loan Payable*

The HYREF Fund (Beijing Hongyuan Recycling Energy Investment Center, LLP) established in July 2013 with total fund size of RMB 460 million ($75.0 million) invests in Xi'an Zhonghong for Zhonghong's three new CDQ WHPG projects. The HYREF Fund invested RMB 3 million ($0.5 million) as an equity investment and RMB 457 million ($74.5 million) as a debt investment in Xi'an Zhonghong; in return for such investments, the HYREF Fund will receive an interest payment from Zhonghong for the HYREF Fund's debt investment. The RMB 457 million ($74.5 million) was released to Zhonghong through an entrusted bank, which is also the supervising bank for the use of the loan. The loan was deposited to a bank account at the Supervising Bank (the Industrial Bank Xi'an Branch) and is jointly supervised by Zhonghong and the Fund Management Company. Project spending shall be verified by the Fund Management Company to confirm that it is in accordance with the project schedule before the funds are released. All the operating accounts of Zhonghong have been opened with the branches of the Supervising Bank and the Supervising Bank has the right to monitor all bank accounts opened by Zhonghong. The entrusted bank will charge 0.1% of loan amount as service fee and will not take any lending risk. The loan was collateralized by the accounts

receivable and the fixed assets of Shenqiu Phase I and II power generation systems, the accounts receivable and fixed assets of Zhonghong's three CDQ WHPG systems, and a 27 million RMB capital contribution made by Xi'an TCH. Repayment of the loan (principal and interest) was also jointly and severally guaranteed by Xi'an TCH and the Chairman and CEO of the Company. In the fourth quarter of 2015, three power stations of Erdos TCH were pledged to Industrial Bank as an additional guarantee for the loan lent to Zhonghong's three CDQ WHPG systems. As of December 31, 2016, additional two power stations of Erdos TCH and Pucheng Phase I and II systems were pledged to Industrial Bank as an additional guarantee along with Xi'an TCH's equity in Zhonghong.

The loan agreement provides that Zhonghong shall also maintain a certain capital level in its account with the Supervising Bank to make sure it has sufficient funds to make interest payments when they are due:

During the first three years from the first release of the loan, the balance in its account shall be no less than RMB 7.14 million ($1.19 million) on the 20th day of the second month of each quarter and no less than RMB 14.28 million ($2.38 million) on the 14th day of the last month of each quarter;

During the fourth year from the first release of the loan, the balance in its account shall be no less than RMB 1.92 million ($0.32 million) on the 20th day of the second month of each quarter and no less than RMB 3.85 million ($0.64 million) on the 14th day of the last month of each quarter; and

During the fifth year from the first release of the loan, the balance in its account shall be no less than RMB 96,300 ($16,050) on the 20th day of the second month of each quarter and no less than RMB 192,500 ($32,080) on the 14th day of the last month of each quarter.

The term of this loan is for 60 months from July 31, 2013 to July 30, 2018. On August 6, 2016, Zhonghong shall repay principal in the amount of RMB 280 million ($42.22 million); on August 6, 2017, it shall repay principal of RMB 100 million ($16.27 million) and on July 30, 2018, it shall repay the remainder of RMB 77 million ($12.52 million). The interest rate is 12.5% per year. During the term, Zhonghong shall maintain a minimal funding level and capital level in its designated account with the Supervising Bank to make sure it has sufficient funds to make principal payments when they are due. Notwithstanding the requirement, there is a verbal agreement from the HYREF Fund that for the purpose of the efficient utilization of working capital, Zhonghong does not have to maintain a minimum funding level in its designated account with the Supervising Bank. As of December 31, 2016, the entrusted loan payable had an outstanding balance of $58.67 million, of which, $10.81 million was from the investment of Xi'an TCH; accordingly, the Company netted off the loan payable of $10.81 million with the long-term investment to the HYREF Fund made by Xi'an TCH. For the year ended December 31, 2016, the Company recorded interest expense of $5.57 million on this loan and capitalized $2.75 million interest to construction in progress. For the year ended December 31, 2015, the Company recorded interest expense of $475,004 and on this loan and capitalized $8.82 million interest to construction in progress. As of the date of this report, the Company paid RMB 50 million ($7.54 million) of the RMB 280 million ($42.22 million), and on August 5, 2016, the Company entered a supplemental agreement with the lender to extend the due date of the remaining RMB 230 million ($34.68 million) of the original RMB 280 million ($45.54 million) to August 6, 2017.

*Bank Loan – Bank of Xi'an*

On June 26, 2015, Xi'an TCH entered into a loan agreement with Bank of Xi'an, whereby Bank of Xi'an agreed to loan $6.29 million (RMB 40 million) to Xi'an TCH for one year with maturity on June 25, 2016. The monthly interest rate of the loan is 0.595%. Under the terms of the loan, Xi'an TCH is required to make monthly interest payments and the principal is to be repaid at maturity. The loan is guaranteed by a third party guarantee company and the Chairman and CEO of the Company. The Company paid a third party $149,341 (RMB 950,000) as a re-guarantee service fee. As of December 31, 2016, this loan was paid in full.

*Bank Loan – Bank of Chongqing*

On April 11, 2014, Xi'an TCH entered into a loan agreement with Bank of Chongqing - Xi'an Branch, whereby Bank of Chongqing agreed to loan $8.13 million (RMB 50 million) to Xi'an TCH for three years with maturity on April 10, 2017. The annual interest rate of the loan is 9.225%. Under the terms of the loan, Xi'an TCH was required to make monthly interest payments and, to make a principal payment of $0.81 million (RMB 5 million) on the 24th month after receiving the loan and of the remaining $7.32 million (RMB 45 million) on the loan maturity date. The loan was guaranteed by a third party guarantee company and the Chairman and CEO of the Company. The company paid a third party $155,280 (RMB 950,000) as a re-guarantee service fee. In addition, Xi'an TCH pledged its collection right for Tangshan Rongfeng and Xuzhou Zhongtai projects to Bank of Chongqing after the two projects were completed and put into operation, to ensure the repayment of loan. As of December 31, 2016, this loan had an outstanding balance of $0.72 million and was classified as a current liability.

*Trust Loan - Zhongrong International Trust - Xuzhou Zhongtai and Tangshan Rongfeng*

On February 17, 2014, Xi'an TCH entered into a trust loan agreement with Zhongrong International Trust Co., Ltd ("ZRIT"), for Xi'an TCH to borrow RMB 150 million ($24.5 million) for the CDQ system and the CDQ WHPG Project with Xuzhou Zhongtai Energy Technology Co., Ltd. (the "Zhongtai Project"). ZRIT set up a Zhongrong-Green Recycling Energy Collective Capital Trust Plan No. 1 (the "Trust Plan No. 1") to raise money and loan the proceeds to Xi'an TCH for the Zhongtai Project (the "Zhongtai Loan"). The Zhongtai Loan was secured by the pledge of CDQ equipment and power generation system of the Zhongtai Project, by personal guarantee of the Chairman and CEO of the Company, and by a corporate guarantee of Xuzhou Zhongtai Energy Technology Co., Ltd. and its affiliated companies. As of December 31, 2016, this loan was paid in full.

On February 17, 2014, Xi'an TCH entered into another trust loan agreement with ZRIT, for Xi'an TCH to borrow RMB 135 million ($22.1 million) for the CDQ system and the CDQ WHPG Project with Tangshan Rongfeng Iron & Steel Co., Ltd. (the "Rongfeng Project"). ZRIT will set up a Zhongrong-Green Recycling Energy Collective Capital Trust Plan No. 2 (the "Trust Plan No. 2") to raise money and loan the proceeds to Xi'an TCH for the Rongfeng Project (the "Rongfeng Loan"). The Rongfeng Loan is secured by the pledge of CDQ equipment and power generation system of the Rongfeng Project, by a personal guarantee of the Chairman and CEO of the Company, and by a corporate guarantee of Tangshan Rongfeng Iron & Steel Co., Ltd. and its parent company. On December 21, 2015, Xi'an TCH paid in full the loan for the Rongfeng Project upon the transfer of the CDQ and a CDQ WHPG system to Rongfeng.

*Summary*

As of December 31, 2016, the future minimum repayment of all the loans including the entrusted loan to be made by years is as follows:

| | |
|---|---|
| 2017 | $48,291,769 |
| 2018 | 288,309 |
| Total | $48,580,078 |

**13. LONG TERM PAYABLE – FINANCING AGREEMENT FOR SALE LEASE-BACK TRANSACTION**

On June 28, 2011, Xi'an TCH entered into a Financing Agreement (the "Cinda Agreement") with Cinda Financial, an affiliate of China Cinda (HK) Asset Management Co., Ltd, a company organized under the laws of the Hong Kong Special Administrative Region of China ("Cinda HK").

Under the Cinda Agreement, Xi'an TCH transferred its ownership of (i) a set of 7MW steam turbine WHPG systems and (ii) four furnaces and ancillary apparatus ((i) and (ii) collectively, the "Assets") to Cinda Financial for $6.72 million (RMB 42.50 million), and Cinda Financial leased the Assets to Xi'an TCH for five years for $8.15 million (RMB 51.54 million) based on the transfer cost and benchmark interest rate for five year loans by People's Bank of China ("PBOC") (then 6.65%) plus 15% of that rate (7.6475%). The interest rate will increase if the five-year benchmark interest rate of PBOC increases but will remain the same if the benchmark rate decreases in the future. Xi'an TCH shall make pro rata quarterly payments to Cinda Financial for the leasing fees. Upon the completion of the lease term and full payment of all leasing fees and other fees, Xi'an TCH exercised its option to pay $676 (RMB 4,250) to acquire the Assets from Cinda Financial. The quarterly minimum leasing payment to Cinda Financial is $412,855 (RMB 2.59 million).

In addition to the leasing fees and payment to acquire the Assets, Xi'an TCH prepaid a one-time non-refundable leasing service charge of $405,696 (RMB 2.55 million) and a refundable security deposit of $338,079 (RMB 2.13 million) to Cinda Financial. The prepaid leasing service fee is to be: amortized over five years. For the years ended December 31, 2016 and 2015, $0 was amortized, respectively. In accordance with ASC 840-10-25-4, because we retain substantially all of the benefits and risks relating to the property, this transaction was a financing and was recorded as such.

As of December 31, 2014, the prepaid leasing service fee was fully amortized as a result of the Early Repayment Agreement entered by Xi'an TCH and Cinda Financial on December 22, 2014. Under the Repayment Agreement, Xi'an TCH paid the principal and interest in the amount of RMB 2.55 million ($0.42 million) in the first quarter of 2015 as well as the remaining principal of RMB 12.14 million ($1.97 million) before March 28, 2015 (the "Total Repayment Price"). Cinda Financial returned the deposit of RMB 2,125,000 ($0.35 million) to Xi'an TCH within three days after Xi'an TCH paid the Total Repayment Price. Upon the effective date of the Repayment Agreement, the Financial Leasing Agreement was terminated. The Company made repayment in full during the first quarter of 2015.

**14. REFUNDABLE DEPOSIT FROM CUSTOMERS FOR SYSTEMS LEASING**

The refundable deposit was mainly for Pucheng, Shenqiu and Yida systems. As of December 31, 2016 and December 31, 2015, the balance of refundable deposit from customers for systems leasing was $1,023,497 for Pucheng and Shengqiu systems, and $1,555,378 for Pucheng, Shenqiu and Yida systems, respectively.

**15. RELATED PARTY TRANSACTIONS**

As of December 31, 2016, the Company had $44,059 in advances from the Company's management, which bear no interest, and are payable upon demand.

On August 27, 2014, the Company entered into a Share Purchase Agreement (the "Agreement") with Mr. Ku. Pursuant to the Agreement, the Company issued to Mr. Ku 1,382,908 shares of the Company's common stock on September 5, 2014 (adjusted for the 1:10 reverse stock split). The purchase price per share for the Shares was the average closing price quoted on the NASDAQ Global Market for the common stock of the Company for 15 trading days prior to the effective date of the Agreement, which was $1.37 per share. The Company received payments in two installments of $12 million and $6.91 million on September 5, 2014 and September 12, 2014, respectively, in equivalent of RMB 74.05 million and RMB 42.85 million, respectively, using the middle exchange rate between USD and RMB published by the People's Bank of China on the effective date of the agreement pursuant to its terms. These shares were recorded using the fair value of $1.49 per share. The Company filed a registration statement registering the Shares for resale on Form S-3 (Reg. No. 333-214834), which was declared effective by the Securities and Exchange Commission on December 20, 2016.

During the year ended December 31, 2016, the Company recognized RMB 28.47 million ($4.29 million) interest income for the sales-type lease of Pucheng BMPG systems from Pucheng Xin Heng Yuan Biomass Power Generation Corporation, whose major stockholder became a stockholder of CREG through the issuance of the Company's common stock to this stockholder in consideration for the transfer of the old system to CREG for BMPG system transformation.

Also during the year ended December 31, 2016, prior to repurchase date, the Company recognized RMB 13.83 million ($2.09 million) interest income for the sales-type lease of Yida WGPG system from Qitaihe City Boli Yida Coal Selection Co., Ltd., whose major stockholder became a stockholder of CREG through the issuance of the Company's common stock to this stockholder in consideration for the transfer of the old system to CREG for WGPG system transformation.

**16. NONCONTROLLING INTEREST**

On July 15, 2013, Xi'an TCH and HYREF Fund jointly established Xi'an Zhonghong New Energy Technology ("Zhonghong") with registered capital of RMB 30 million ($4.88 million), to manage new projects. Xi'an TCH paid RMB 27 million ($4.37 million). Xi'an TCH owns 90% of Zhonghong while HYREF Fund owns 10% of Zhonghong as non-controlling interest of Zhonghong.

In addition, the HYREF Fund was 16.3% owned by Xi'an TCH and 1.1% owned by the Fund Management Company, and the Fund Management Company was 40% owned by Xi'an TCH as described in Note 7, which resulted in an additional indirect ownership of Xi'an TCH in Zhonghong of 1.7%; accordingly, the ultimate non-controlling interest (HYREF Fund) in Zhonghong became 8.3%. During the years ended December 31, 2016 and 2015, the Company had losses of $347,136 and $29,582 that were attributable to the noncontrolling interest, respectively.

**17. INCOME TAX**

The Company's Chinese subsidiaries are governed by the Income Tax Law of the PRC concerning privately-run enterprises, which are generally subject to tax at 25% on income reported in the statutory financial statements after appropriate tax adjustments. Under the Chinese tax law, the tax treatment of finance and sales-type leases is similar to US GAAP. However, the local tax bureau continues to treat CREG sales-type leases as operating leases. Accordingly, the Company recorded deferred income taxes.

The Company's subsidiaries generate all of their net income from their PRC operations. Yinghua and Shanghai TCH's effective income tax rate for 2016 and 2015 was 25%. During 2013, Xi'an TCH was re-approved for high tech enterprise status and enjoyed 15% preferential income tax rate for three years effective January 1, 2013 through December 31, 2015, and is subject to 25% income tax rate in 2016 unless the renewal of preferential income tax rate is approved by the tax authority; as of December 31, 2016, the preferential income tax rate is not yet approved. Huahong, Zhonghong and Erdos TCH's effective income tax rate for 2016 and 2015 was 25%. Yinghua, Shanghai TCH, Xi'an TCH, Huahong, Zhonghong and Erdos TCH file separate income tax returns.

There is no income tax for companies domiciled in the Cayman Islands. Accordingly, the Company's consolidated financial statements do not present any income tax provisions related to Cayman Islands tax jurisdiction where Sifang Holding is domiciled.

The US parent company, China Recycling Energy Corporation, is taxed in the US and, as of December 31, 2016, had net operating loss ("NOL") carry forwards for income taxes of $14.15 million, which may be available to reduce future years' taxable income as NOLs can be carried forward up to 20 years from the year the loss is incurred. Our management believes the realization of benefits from these losses may be uncertain due to the US parent company's continuing operating losses. Accordingly, a 100% deferred tax asset valuation allowance was provided.

Consolidated foreign pretax earnings approximated $1.21 million and $22.38 million for the years ended December 31, 2016 and 2015, respectively. Pretax earnings of a foreign subsidiary are subject to US taxation when repatriated. The Company provides income taxes on the undistributed earnings of non-US subsidiaries except to the extent that such earnings are indefinitely invested outside the United States. As of December 31, 2016, $113.16 million of accumulated undistributed earnings of non-US subsidiaries were indefinitely invested. At the existing US federal income tax rate, additional taxes of $23.85 million would have to be provided if such earnings were remitted currently.

The following table reconciles the US statutory rates to the Company's effective tax rate for the years ended December 31, 2016 and 2015, respectively:

| | 2016 (Restated) | 2015 |
|---|---|---|
| U.S. statutory rates | (34.0)% | 34.0 % |
| Tax rate difference – current provision | 8.9 % | (9.3)% |
| Effective tax holiday | - % | (7.2)% |
| Other | - % | (2.0)% |
| Tax rate change for future deferred tax items | (0.1)% | - % |
| Prior periods income tax adjustment per income tax return filed | - % | (1.8)% |
| Permanent differences | (1.9)% | - % |
| Valuation allowance on PRC NOL | 14.3 % | 0.1 % |
| Valuation allowance on US NOL | 0.3 % | 1.2 % |
| Tax per financial statements | (12.5)% | 15.0 % |

The provision for income taxes expense (benefit) for the years ended December 31, 2016 and 2015 consisted of the following:

| | 2016 (Restated) | 2015 |
|---|---|---|
| Income tax expense – current | $ 1,899,005 | $ 4,497,150 |
| Income tax benefit - deferred | (8,832,530) | (1,252,455) |
| Total income tax expense (benefit) | $ (6,933,525) | $ 3,244,695 |

**18. STOCK-BASED COMPENSATION PLAN**

*Options to Employees*

The Company recorded no compensation expense for stock options to employees during the years ended December 31, 2016 and 2015.

On June 19, 2015, the stockholders of the Company approved the China Recycling Energy Corporation Omnibus Equity Plan (the "Equity Plan") at its annual meeting. The total aggregate shares of common stock authorized for issuance during the term of the Equity Plan is limited to 12,462,605 shares (prior to the 10:1 Reverse Stock Split). The Equity Plan was effective immediately upon the adoption by our Board of Directors on April 24, 2015, subject to stockholder approval, and will terminate on the earliest to occur of (i) the 10th anniversary of the Equity Plan's effective date, or (ii) the date on which all shares available for issuance under the Equity Plan shall have been issued as fully-vested shares. No share or option grants have been made to employees under the Equity Plan as of December 31, 2016.

*Options to Independent Directors*

On March 31, 2015, the Board appointed Mr. Cangsang Huang as a member of the Company's Board of Directors to fill a vacancy. Mr. Huang will serve until his successor has been duly elected and qualified. In connection with the appointment, the Board authorized the Company to provide Mr. Huang with (i) compensation in the amount of $2,000 per month and (ii) the grant of an option to purchase 40,000 shares of the Company's Common Stock, par value $0.001, at an exercise price equal of $1.02 per share, which was equal to the closing price per share of the Company's Common Stock on March 31, 2015. Such options were only valid and exercisable upon stockholder approval. The options to Mr. Huang were not voted upon at the Company's annual stockholder's meeting on June 19, 2015 and were cancelled automatically. However, the Company's Omnibus Equity Plan ("Plan") adopted by the Board on April 24, 2015 for providing equity awards to employees, directors and consultants was approved at the annual stockholder's meeting; accordingly, the Compensation Committee of the Board of Directors approved a grant of 40,000 options (prior to the 10:1 Reverse Stock Split) to Mr. Huang at an exercise price of $1.02 per share under the Plan which vested immediately on the date of grant, which was on October 10, 2015. The options may be exercised within five years of the date of the grant.

The following table summarizes option activity with respect to the independent directors, the number of options reflects the 10:1 Reverse Stock Split effective on May 25, 2016:

| | Number of Shares | Average Exercise Price per Share | Weighted Average Remaining Contractual Term in Years |
|---|---|---|---|
| Outstanding at January 1, 2015 | 8,000 | $ 38.3 | 0.31 |
| Exercisable at January 1, 2015 | 8,000 | 38.3 | 0.31 |
| Granted | 4,000 | 10.2 | 4.77 |
| Exercised | - | - | - |
| Forfeited | 8,000 | - | - |
| Outstanding at December 31, 2015 | 4,000 | 10.2 | 4.77 |
| Exercisable at December 31, 2015 | 4,000 | 10.2 | 4.77 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Forfeited | - | - | - |
| Outstanding at December 31, 2016 | 4,000 | 10.2 | 3.77 |
| Exercisable at December 31, 2016 | 4,000 | $ 10.2 | 3.77 |

**19. STATUTORY RESERVES**

Pursuant to the corporate law of the PRC effective January 1, 2006, the Company is only required to maintain one statutory reserve by appropriating from its after-tax profit before declaration or payment of dividends. The statutory reserve represents restricted retained earnings.

*Surplus Reserve Fund*

The Company's Chinese subsidiaries are required to transfer 10% of their net income, as determined under PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital.

The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The maximum statutory reserve amount has not been reached for any subsidiary. The table below discloses the statutory reserve amount in the currency type registered for each Chinese subsidiary as of December 31, 2016.

| Name of Chinese Subsidiaries | Registered Capital | Maximum Statutory Reserve Amount | Statutory reserve at December 31, 2016 |
|---|---|---|---|
| Shanghai TCH | $ 29,800,000 | $ 14,900,000 | ¥ 6,564,303 ($959,387) |
| Xi'an TCH | ¥ 202,000,000 | ¥ 101,000,000 | ¥ 67,810,355 ($10,410,458) |
| Erdos TCH | ¥ 120,000,000 | ¥ 60,000,000 | ¥ 19,035,814 ($2,926,378) |
| Xi'an Zhonghong | ¥ 30,000,000 | ¥ 15,000,000 | Did not accrue yet due to accumulated deficit |
| Shaanxi Huahong | $ 2,500,300 | $ 1,250,150 | Did not accrue yet due to accumulated deficit |

| | | | |
|---|---|---|---|
| Zhongxun | ¥ 35,000,000 | ¥ 17,500,000 | Did not accrue yet due to accumulated deficit |

*Common Welfare Fund*

The common welfare fund is a voluntary fund to which the Company can transfer 5% to 10% of its net income. This fund can only be utilized on capital items for the collective benefit of the Company's employees, such as construction of dormitories, cafeteria facilities, and other staff welfare facilities. This fund is non-distributable other than upon liquidation. The Company does not participate in this fund.

**20. CONTINGENCIES**

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company's sales, purchases and expense transactions are denominated in RMB and all of the Company's assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB may require certain supporting documentation in order to make the remittance.

The Company sells electricity to its customers and receives commercial notes (bank acceptance) from them in lieu of payments for accounts receivable. The Company discounts the commercial notes with the bank or endorses the commercial notes to vendors for payment of their own obligations or to get cash from third parties. Most of the commercial notes have a maturity of less than six (6) months. As of December 31, 2016 and 2015, Xi'an TCH had outstanding notes receivable of $0.

**21. COMMITMENTS**

*Lease Commitment*

On March 4, 2014, Xi'an TCH's office lease expired and Xi'an TCH renewed this lease for an additional two years; the monthly rental payment is $20,140. The lease for the office in Xi'an was renewed for an additional two years starting on March 5, 2016 with a monthly rental payment of $21,804 but payable quarterly in advance. In addition, on September 16, 2013, Xi'an TCH leased an office in Beijing for a term of two-years and three-months, expiring on December 31, 2015, with a monthly rental payment of $12,110. The lease for the office in Beijing was not renewed at expiration. For the year ended December 31, 2016 and 2015, the rental expense of Xi'an TCH was $245,699 and $388,211, respectively.

Future minimum annual rental payments required under operating leases as of December 31, 2016 were as below (by year):

| | |
|---|---|
| 2017 | $249,667 |
| 2018 | $62,417 |
| Total | $312,084 |

*Construction Commitment*

Refer to Note 1 for additional details related to lease commitments with Chengli, Tianyu (and its subsidiaries Xuzhou Tian'an and Xuzhou Huayu), and Zhongtai and Note 8 for commitments on construction in progress.

**22. SUBSEQUENT EVENTS**

*Security Purchase Agreement*

On July 11, 2018, the Company entered into a Securities Purchase Agreement with Iliad Research and Trading, L.P., a Utah limited partnership (the "Purchaser"), pursuant to which the Company sold and issued to the Purchaser a Convertible Promissory Note (the "Note") in the amount of $1,070,000. The Purchaser purchased the Note with an original issue discount of $50,000, and the Company agreed to pay to the Purchaser $20,000 for fees and costs incurred by Purchaser in connection with the consummation of the Purchase Agreement. The Note was sold to the Purchaser pursuant to an exemption from registration under Regulation D, promulgated under the Securities Act of 1933, as amended.

The Note bears interest at the rate of 8% per annum. All outstanding principal and accrued interest on the Note will become due and payable on July 11, 2020, subject to a potential one-year extension period during which interest would not accrue. The Company's obligations under the Note may be prepaid at any time, provided that in such circumstance the Company would pay a 125% premium on any amounts outstanding under the Note. Amounts outstanding under the Note may be converted at any time, at the Lender's option, into shares of the Company's common stock at a conversion price of $3.00 per share, subject to certain adjustments. During the term of the Note, the Company shall not, without the prior written consent of the Purchaser, enter into or effect certain fundamental business transactions. The Purchaser has the option to redeem the Note at any time after the six month anniversary of the date when the purchase price is delivered to the Company ("Purchase Price Date") in the amounts of up to 50% of the amount outstanding during the nine month period after Purchase Price Date or any percentage of the amount outstanding under the Note at any time after the nine month anniversary of Purchase Price Date, with such redemption amounts paid in cash or shares of the Company's common stock, or a combination thereof, at the Company's election.

*Acquisition of 18% of Xinhuan*

On September 30, 2018, Shanghai TCH entered into an Equity Purchase Agreement with Mr. Jihua Wang ("Seller"), pursuant to which Xi'an TCH shall acquire 20% of the outstanding equity interests (the "Acquired Interests") of Xi'an Xinhuan Energy Co., Ltd. ("Xinhuan").

Pursuant to the Purchase Agreement, Shanghai TCH shall purchase the Acquired Interests for RMB 320 million ($46.72 million) (the "Purchase Price"), which shall be paid as follows: (i) in cash RMB 60 million ($8.76 million); (ii) in the form of 2.6 million shares of the Company's common stock using a value of $1.90 per share; and (iii) in the form of 17,376,950 shares of the Company's preferred stock using a value of $1.90 per share. The preferred shares shall

have no voting rights but shall have preferential dividend rights to participate in and receive a 15% premium on a per share basis for any dividends declared and paid by the Company on its common stock. The holder of the preferred shares shall have the right to convert the preferred shares into shares of the Company's common stock on a 1:1 basis after the six month anniversary of the issuance of the preferred shares, but the Holder may only exercise such conversion right to the extent that, after giving effect to the issuance of common stock after such conversion, the Holder would beneficially own less than 20% of the Company's issued and outstanding common stock.

The payment of the Purchase Price in the form of the 2.6 million shares of common stock and 17,376,950 shares of the Company's preferred stock (the "Share Payment") is contingent on the Company receiving shareholder approval at a special shareholders meeting for the Share Payment, and to create the new class of preferred shares and increase the number of authorized shares of common stock. The shares of common and preferred stock subject to the Share Payment shall be sold and issued pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended. In the event that the Share Payment and other matters are not approved at a special meeting of the Company's shareholders, the parties to the Purchase Agreement shall negotiate another form of payment for the remaining portion of the Purchase Price.

The parties to the Purchase Agreement agreed to complete the transactions contemplated thereby within 60 days of the date of the Purchase Agreement or upon the approval of the shareholders of the Company, whichever comes later, and Seller agreed to various restrictions on, and covenants in relation to, its activities pending the completion of the sale of the Acquired Interests.

On November 21, 2018, Shanghai TCH and Mr. Jihua Wang entered into an Agreement of Supplementary and Amendment (the "Amendment Agreement") to that Equity Purchase Agreement, dated September 30, 2018, by and between Shanghai TCH and Mr. Jihua Wang (the "Original Agreement").

Pursuant to the Amendment Agreement, Shanghai TCH agreed to (a) purchase an 18% equity interest in Xi'an Xinhuan Energy Co., Ltd. ("Xinhuan") instead of the 20% equity interest contemplated by the Original Agreement; (b) pay RMB 288 ($42.05 million)million for such equity interests (the "Purchase Price) instead of the RMB 320 million contemplated by the Original Agreement; (c) pay RMB 228 million of the Purchase Price in shares of the Company's capital stock (the "Share Payment") instead of the RMB 260 million contemplated by the Original Agreement; (d) complete the Share Payment using a per share value of $1.70 for both common and preferred shares instead of the $1.90 contemplated by the Original Agreement; and (e) issue to Mr. Wang 16,837,340 preferred shares as a portion of the Share Payment instead of the 17,376,950 preferred shares contemplated by the Original Agreement.

On March 29, 2019, Shanghai TCH Energy Technology Co., Ltd ("Shanghai TCH"), a wholly owned subsidiary of China Recycling Energy Corporation (the "Company") entered into a Termination Agreement (the "Termination Agreement") of Equity Purchase Agreement and Supplementary Amendment Agreement with Mr. Jihua Wang. Shanghai TCH originally entered into an Equity Purchase Agreement dated on September 30, 2018 and Supplementary Amendment Agreement of Equity Purchase Agreement dated on November 21, 2018 with Mr. Wang (the "Original Agreements") to purchase an 18% equity interest in Xi'an Xinhuan Energy Co., Ltd. from Mr. Wang, as disclosed in the Form 8-Ks filed on October 2, 2018 and November 26, 2018.

Pursuant to the Termination Agreement, the parties agree to cancel and terminate the Original Agreement upon the effective date of the Termination Agreement. Parties agree not to pursue any breach of contract liability against each other under Original Agreements.

*Security Purchase Agreements*

On October 29, 2018, China Recycling Energy Corporation entered into Securities Purchase Agreements with certain purchasers, pursuant to which the Company will offer to the Purchasers, in a registered direct offering, an aggregate of 1,985,082 shares (the "Shares") of the Company's common stock. The Shares will be sold to the Purchasers at $1.375 per share, for gross proceeds to the Company of approximately $2.75 million, before deducting fees to the placement agent and other estimated offering expenses payable by the Company.

In a concurrent private placement, the Company is also issuing to the each of the Purchasers a warrant to purchase one (1) share of the Company's Common Stock for each Share purchased under the Purchase Agreement, pursuant to that certain Common Stock Purchase Warrant, by and between the Company and each Purchaser, for a purchase price of $0.125 per Warrant and aggregate gross proceeds to the Company of approximately $250,000, before deducting fees to the placement agent and other estimated offering expenses payable by the Company. The Warrants will be exercisable on the date of issuance at an initial exercise price of $1.3725 per share and will expire on the five and a half year anniversary of the date of issuance.

H.C. Wainwright & Co., LLC is acting as the Company's exclusive placement agent in connection with the offerings under the Purchase Agreement and will receive a fee equal to 7.0% of the gross proceeds received by the Company from the offerings, up to $75,000 for certain expenses and warrants to purchase our Common Stock in an amount equal to 7% of our Shares sold to the Purchasers in the offerings, or 138,956 shares of Common Stock, on substantially the same terms as the Warrants, with an initial exercise price of $1.875 per share and expiration date of October 29, 2023 (the "Placement Agent Warrants").

*Repayment of HYREF loan*

On December 29, 2018, Xi'an Zhonghong, Xi'an TCH, Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF"), Guohua Ku, the Chairman and CEO of the Company, and Chonggong Bai entered into a CDQ WHPG Station Fixed Assets Transfer Agreement, pursuant to which Xi'an Zhonghong will transfer a CDQ WHPG station as the repayment of loan at RMB 188,639,400 ($27.54 million) to HYREF. Xi'an Zhonghong, Xi'an TCH, Guohua Ku and Chonggong Bai also agreed to buy back the CDQ WHPG Station when conditions under the Buy Back Agreement are met.

On December 29, 2018, Xi'an TCH, Xi'an Zhonghong, HYREF, Guohua Ku, Chonggong Bai and Xi'an Hanneng Enterprises Management Consulting Co. Ltd. ("Xi'an Hanneng") entered into a Buy Back Agreement.

Pursuant to the Buy Back Agreement, Xi'an TCH, Xi'an Zhonghong, Guohua Ku and Chonggong Bai (the "Buyers") jointly and severally agreed to buy back all outstanding capital equity of Xi'an Hanneng which was transferred to HYREF by Chonggong Bai, and a CDQ WHPG station in Boxing County which was transferred to HYREF by Xi'an Zhonghong. The buy-back price for the Xi'an Hanneng's equity will be the higher of (i) the market price of the equity shares at the time of buy-back; or (ii) the original transfer price of the equity shares plus bank interest. HYREF may request that the Buyers buy back the equity shares of Xi'an Hanneng and/or the CDQ WHPG station if one of the following conditions is met: (i) HYREF holds the equity shares of Xi'an Hanneng until December 31, 2021; (ii) Xi'an Huaxin New Energy Co., Ltd., a subsidiary of Xi'an Hanneng is delisted from The National Equities Exchange And Quotations Co., Ltd., a Chinese over-the-counter trading system (the "NEEQ"); (iii) any of the Buyers or its affiliates has a credit problem, including not being able to issue an auditor report or standard auditor report or any control person or executive of the Buyers is involved in crimes and is under prosecution or has other material credit problems, to HYREF's reasonable belief; (iv) if Xi'an Zhonghong fails to timely make repayment on principal or interest of the loan agreement, its supplemental agreement or extension agreement; (v) the Buyers or any party to the Debt Repayment Agreement materially breaches the Debt Repayment Agreement or its related transaction documents, including but not limited to the Share Transfer Agreement, the Pledged Assets Transfer Agreement, the Entrusted Loan Agreement and their guarantee agreements and supplemental agreements.

On December 29, 2018, Xi'an TCH entered into a Share Transfer Agreement with Hongyuan Huifu Venture Capital Co. Ltd ("Hongyuan Huifu"), pursuant to which Xi'an TCH agreed to transfer its 40% ownership in Hongyuan Recycling Energy Investment Management Beijing Co., Ltd. (the "Fund Management Company") to Hongyuan Huifu for consideration of RMB 3,453,867.31 ($504,000) (the "Fund Management Company Transfer Price").

On December 29, 2018, Xi'an TCH, Hongyuan Huifu and Fund Management Company entered into a supplemental agreement to the Share Transfer Agreement. Xi'an TCH owes the Fund Management Company RMB 18,306,666,67 ($2,672,000) in financial advisory fees, and the parties agreed that the Fund Management Company Transfer Price could be used to off-set the outstanding financial advisory fees. Upon the completion of this transaction, the Fund Management Company will owe RMB 3,453,867 to Hongyuan Huifu, and Xi'an TCH will owe RMB 14,852,799.36 ($2,168,000) to the Fund Management Company.

On December 29, 2018, Shanghai TCH entered into a Share Transfer Agreement with Hongyuan Huifu, pursuant to which Hongyuan Huifu agreed to transfer its 10% ownership in Xi'an Zhonghong to Shanghai TCH for consideration of RMB 3 million (approximately US $437,956).

On January 4, 2019, Xi'an Zhonghong, Xi'an TCH, and Mr. Chonggong Bai, a resident of China, entered into a Projects Transfer Agreement (the "Agreement"), pursuant to which Xi'an Zhonghong will transfer a CDQ WHPG station (under construction) located in Xuzhou City for Xuzhou Huayu Coking Co., Ltd. ("Xuzhou Huayu Project") to Mr. Bai for RMB 120,000,000 ($17,518,248) and Xi'an TCH will transfer two Biomass Power Generation Projects in Shenqiu ("Shenqiu Phase I and II Projects") to Mr. Bai for RMB 127,066,000 ($18,549,000). Mr. Bai agreed to transfer all the equity shares of his wholly owned company, Xi'an Hanneng Enterprises Management Consulting Co. Ltd. ("Xi'an Hanneng") to Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF") as repayment for the RMB 247,066,000 ($36,068,029) loan made by Xi'an Zhonghong to HYREE as consideration for the transfer of the Xuzhou Huayu Project and Shenqiu Phase I and II Projects.

On January 22, 2019, Xi'an TCH completed the transaction contemplated in a Share Transfer Agreement (the "Fund Management Company Share Transfer Agreement") which was entered on December 29, 2018. Pursuant to the Fund Management Company Share Transfer Agreement, Xi'an TCH transferred its 40% ownership in Hongyuan Recycling Energy Investment Management Beijing Co., Ltd. to Hongyuan Huifu Venture Capital Co. Ltd ("Hongyuan Huifu") for RMB 3,453,867 ($504,214).

On January 22, 2019, Shanghai TCH contemplated in a Share Transfer Agreement (the "Xi'an Zhonghong Share Transfer Agreement") which was entered on December 29, 2018. Pursuant to the Xi'an Zhonghong Share Transfer Agreement, Hongyuan Huifu transferred its 10% ownership in Xi'an Zhonghong New Energy Technology Co., Ltd. to Shanghai TCH for RMB 3 million ($437,956).

On January 22, 2019, Xi'an Zhonghong, completed the transaction contemplated in a CDQ WHPG Station Fixed Assets Transfer Agreement (the "Fixed Assets Transfer Agreement") which was entered on December 29, 2018. Pursuant to the Fixed Assets Transfer Agreement, Xi'an Zhonghong transferred a CDQ WHPG station to Beijing Hongyuan Recycling Energy Investment Center, LLP ("HYREF") as the repayment of a loan for RMB 188,639,400 ($27,538,598) owed to HYREF. Xi'an TCH is a secondary limited partner of HYREF. The consideration of the CDQ WHPG station is determined by the parties based upon the appraisal report issued by Zhonglian Assets Appraisal Group (Shaanxi) Co., Ltd. as of August 15, 2018.

On February 15, 2019, Xi'an TCH and Xi'an Zhonghong completed the transfer of assets contemplated in a Projects Transfer Agreement (the "Agreement") which was entered on January 4, 2019. Pursuant to the Agreement, Xi'an Zhonghong transferred a CDQ WHPG station (under construction) located in Xuzhou City for Xuzhou Huayu Coking Co., Ltd. ("Xuzhou Huayu Project") to Mr. Chonggong Bai for RMB 120,000,000 (US$17,518,248) and Xi'an TCH transferred two Biomass Power Generation Projects in Shenqiu ("Shenqiu Phase I and II Projects") to Mr. Bai for RMB 127,066,000 ($18,549,781). Mr. Bai agreed to transfer all the equity shares of his wholly owned company, Xi'an Hanneng to Beijing Hongyuan Recycling Energy Investment Center, LLP (the "HYREF") as repayment by Xi'an Zhonghong for the RMB 247,066,000 ($36,068,029) loan to HYREE as consideration for the transfer of the Xuzhou Huayu Project and Shenqiu Phase I and II Projects.

*Securities Purchase Agreement*

On January 31, 2019, the Company entered into a Securities Purchase Agreement with Iliad Research and Trading, L.P., a Utah limited partnership (the "Purchaser"), pursuant to which the Company sold and issued to the Purchaser a Convertible Promissory Note (the "Note") in the amount of $1,050,000. The Purchaser purchased the Note with an original issue discount of $50,000. The Note was sold to the Purchaser pursuant to an exemption from registration under Regulation D, promulgated under the Securities Act of 1933, as amended. The Note bears interest at the rate of 8% per annum. All outstanding principal and accrued interest on the Note will become due and payable on January 30, 2021, subject to a potential one-year extension period during which interest would not accrue. The Company's obligations under the Note may be prepaid at any time, provided that in such circumstance the Company would pay a 125% premium on any amounts outstanding under the Note. Amounts outstanding under the Note may be converted at any time, at the Lender's option, into shares of the Company's common stock at a conversion price of $3.00 per share, subject to certain adjustments.

On February 13, 2019, China Recycling Energy Corporation entered into a Securities Purchase Agreement (the "Agreement") with Great Essential Investment, Ltd. a company incorporated in the British Virgin Islands (the "Purchaser"), pursuant to which the Company agreed to sell to the Purchaser in a private placement 1,600,000 shares (the "Shares") of the Company's common stock, par value $0.001 per share (the "Common Stock"), at $1.013 per share for $1,620,800 (the "Private Placement"). The Company shall file a registration statement for the registration of the Shares for their resale by the Purchaser within 100 days from the effective date of this Agreement. The Private Placement will be completed pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended.

On February 27, 2019, the Company entered into a Securities Purchase Agreement with Iliad Research and Trading, L.P., a Utah limited partnership (the "Purchaser"), pursuant to which the Company sold and issued to the Purchaser a Convertible Promissory Note (the "Note") in the amount of $1,050,000. The Purchaser purchased the Note with an original issue discount of $50,000. The Note was sold to the Purchaser pursuant to an exemption from registration under Regulation D, promulgated under the Securities Act of 1933, as amended. The Note bears interest at the rate of 8% per annum. All outstanding principal and accrued interest on the Note will become due and payable on February 26, 2021, subject to a potential one-year extension period during which interest would not accrue. The Company's obligations under the Note may be prepaid at any time, provided that in such circumstance the Company would pay a 125% premium on any amounts outstanding under the Note. Amounts outstanding under the Note may be converted at any time, at the Lender's option, into shares of the Company's common stock at a conversion price of $3.00 per share, subject to certain adjustments.

**23. RESTATEMENT**

On April 28, 2016, Erdos TCH and Erdos entered a supplemental agreement, effective on May 1, 2016, Erdos TCH cancelled monthly minimum lease payments from Erdos, and charges Erdos based on actual electricity sold at RMB 0.30 / Kwh.

The Company evaluated the modified terms for payments based on actual electricity sold as minimum lease payments as defined in ASC 840-10-25-4, since lease payments that depend on a factor directly related to the future use of the leased property are contingent rentals and are excluded from minimum lease payments in their entirety; accordingly, the Company wrote off the net investment receivables of these leases at lease modification date. The consolidated financial statements for the year ended December 31, 2016 and as of December 31, 2016 were restated to reflect the above determination.

The following table presents the effects of the restatement on the accompanying consolidated balance sheet at December 31, 2016:

| | Previously | Restated | Net Adjustment |
|---|---|---|---|
| Current portion of investment in sales-type leases, net | $ 9,385,453 | $ 8,101,583 | $ (1,283,870) |
| Investment in sales-type leases, net (Non-current) | 101,706,978 | 49,161,943 | (52,545,035) |
| Total Assets | $ 264,512,065 | $ 210,683,160 | $ (53,828,905) |
| Deferred tax liability, net (current) | $ 1,418,078 | $ 1,097,111 | $ (320,967) |
| Deferred tax liability, net (Non-current) | 7,482,901 | 1,968,241 | (5,514,660) |
| Total Liabilities | 63,078,884 | 57,243,257 | (5,835,627) |
| Statutory reserve | 14,473,924 | 14,296,223 | (177,701) |
| Accumulated other comprehensive income | (10,544,426) | (8,415,101) | 2,129,325 |
| Retained earnings | 85,838,638 | 35,893,736 | (49,944,902) |
| Total Company stockholders' equity | 201,565,612 | 153,572,334 | (47,993,278) |
| Total liabilities and equity | $ 264,512,065 | $ 210,683,160 | $ (53,828,905) |

The following table presents the effects of the restatement on the accompanying consolidated statement of income and comprehensive income for the year ended December 31, 2016:

| | As Previously Reported | Restated | Net Adjustment |
|---|---|---|---|
| Contingent rental income | $ 6,645 | $ 4,482,850 | $ 4,476,205 |
| Cost of sales | 11,654 | 74,415 | 62,761 |
| Gross profit (loss) | (5,009) | 4,408,435 | 4,413,444 |
| Interest income on sales-type leases | 12,165,572 | 11,629,410 | (536,162) |
| Total operating income | 12,160,563 | 16,037,845 | 3,877,282 |
| General and administrative expenses | 1,563,333 | 4,531,730 | 2,968,397 |
| Impairment loss on net investment receivable | 242,305 | 57,368,330 | 57,126,025 |
| Income (loss) from operations | 10,354,925 | (45,862,215) | (56,217,140) |
| Income (loss) before income tax | 641,047 | (55,576,093) | (56,217,140) |
| Income tax expense (benefit) | (838,988) | (6,933,525) | (6,094,537) |
| Net income (loss) attributable to China Recycling Energy Corporation | 1,827,171 | (48,295,432) | (50,122,603) |
| Foreign currency translation gain (loss) | (13,754,741) | (11,625,416) | 2,129,325 |
| Comprehensive income (loss) attributable to China Recycling Energy Corporation | $ (11,927,570) | $ (59,920,848) | $ (47,993,278) |

The following table presents the effects of the restatement on the accompanying consolidated statement of cash flows for the year ended December 31, 2016:

| | As Previously Reported | Restated | Net Adjustment |
|---|---|---|---|
| Income including noncontrolling interest | $ 1,480,035 | $ (48,642,568) | $ (50,122,603) |
| Impairment loss on net investment receivable | 242,305 | 57,368,330 | 57,126,025 |
| Changes in deferred tax | (2,737,993) | (8,832,530) | (6,094,537) |
| Interest receivable on sales type leases | (4,283,517) | (5,192,402) | (908,885) |
| Net cash provided by operating activities | $ 39,514,211 | $ 39,514,211 | $ - |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

*Disclosure Controls and Procedures*

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016 our disclosure controls and procedures were effective to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. Disclosure controls and procedures, no matter how well designed, operated and managed, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Because of the inherent limitations of disclosure controls and procedures, no evaluation of such disclosure controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

*Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations.

We conducted an assessment of the effectiveness of our system of internal control over financial reporting as of December 31, 2015, the last day of our fiscal year. This assessment was based on criteria established in the framework *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission and included an evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with US generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

This annual report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm.

*Changes in internal control over financial reporting*

With the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the Company's fiscal year ended as of December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on such evaluation, management concluded that, as of the end of the period covered by this report, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

Not applicable.

**PART III**

The information required by Part III of this Annual Report on Form 10-K, pursuant to General Instruction G(3) of Form 10-K, will be set forth in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A relating to the Company's Annual Meeting of Shareholders and is incorporated herein by reference.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information regarding our directors and executive officers required by this Item will be set forth under the captions "Proposal 1 — Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information About Our Board of Directors and Corporate Governance" in the Company's definitive Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION.**

Information required by this Item will be set forth in the Company's definitive Proxy Statement under the captions "Information About Our Board of Directors and Corporate Governance," "Executive Compensation" and "Director Compensation" and is incorporated by reference into this Annual Report on Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.**

Information required by this Item will be set forth in the Company's definitive Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" and is incorporated by reference into this Annual Report on Form 10-K.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Information required by this Item will be set forth in the Company's definitive Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Information About Our Board of Directors and Corporate Governance" and is incorporated by reference into this Annual Report on Form 10-K.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Information required by this Item will be set forth in the Company's definitive Proxy Statement under the caption "Information about Our Independent Registered Public Accounting Firm" and is incorporated by reference into this Annual Report on Form 10-K.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) Financial Statements and Schedules

(1) The following Financial Statements are filed as a part of this report:

(i) Report of Independent Registered Public Accounting Firm.

(ii) Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015.

(iii) Consolidated Statements of Income for the years ended December 31, 2016 and December 31, 2015.

(iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016 and December 31, 2015.

(v) Consolidated Statements of Cash Flows for the years ended December 31, 2016 and December 31, 2015.

(vi) Notes to Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Exhibits. Please see the list of exhibits set forth on our Exhibit Index, which is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**China Recycling Energy Corporation**

Date: April 5, 2019 By: /s/ Guohua Ku
Guohua Ku
Chairman of the Board and

Chief Executive Officer

Date: April 5, 2019 By: /s/ Binfeng Gu
Bingeng Gu
Chief Financial Officer,

Principal Financial Officer and Secretary

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on April 5, 2019.

Each person whose signature appears below constitutes and appoints Guohua Ku as his true and lawful attorney-in-fact and agent, acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K/A and to file the same, with all exhibits thereto, and other documents in connection therewith, with the US Securities and Exchange Commission, granting unto said attorney-in-fact and agent, acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agent, acting alone, or his substitute, may lawfully do or cause to be done by virtue thereof.

| **Signature** | **Title** |
|---|---|
| /s/ Guohua Ku<br>Guohua Ku | Chairman of the Board of Directors and Chief Executive Officer |
| /s/ Binfeng Gu | |

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|---|---|
| Binfeng Gu | Chief Financial Officer, Principal Financial Officer and Secretary |
| /s/ Xiaogang Zhu<br>Xiaogang Zhu | Director |
| /s/ Geyun Wang<br>Geyun Wang | Director |
| /s/ LuLu Sun<br>LuLu Sun | Director |
| /s/ Xiaoping Guo<br>Xiaoping Guo | Director |

**EXHIBIT INDEX**

The following documents listed below that have been previously filed with the SEC (1934 Act File No. 000-12536 unless otherwise stated) are incorporated herein by reference:

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation (filed as Exhibit 3.05 to the Company's Form 10-KSB for the fiscal year ended December 31, 2001). |
| 3.2 | Fourth Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 25, 2009). |
| 3.3 | Certificate of Change (filed as Exhibit 3.6 to the Company's Current Report on Form 8-K dated May 24, 2016). |
| 4.1 | Common Stock Specimen (filed as Exhibit 4.1 to the Company's Registration Statement on Form SB-2 dated November 12, 2004; 1934 Act File No. 333-120431). |
| 10.1 | Securities Exchange Agreement by and among Boulder Acquisitions, Inc., Sifang Holdings Co., Ltd. and the stockholders of Sifang Holdings Co., Ltd., dated effective as of June 23, 2004 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 23, 2004). |
| 10.2 | Share Purchase Agreement, dated January 24, 2007, between individual purchasers and shareholders of China Digital Wireless, Inc. (filed as Exhibit 11.1 to the Company's Current Report on Form 8-K dated January 26, 2007). |
| 10.3 | TRT Project Joint Operation Agreement by and between Shanghai TCH Energy Technology Co. Ltd. and Xi'an Yingfeng Science and Technology Co. Ltd., dated February 1, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 8, 2007). |
| 10.4 | Share Exchange Agreement by and among Hanqiao Zheng, Guohua Ku and a group of individual purchasers all of whom are stockholders of Xi'an Yingfeng Science and Technology Co. Ltd, dated February 22, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 21, 2007). |
| 10.5 | Share Exchange Agreement by and among Guohua Ku and a group of individual purchasers all of whom are stockholders of Xi'an Yingfeng Science and Technology Co. Ltd, dated on August 22, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 21, 2007). |
| 10.6 | Share Purchase Agreement by and between Guohua Ku and Hanqiao Zheng, dated on August 23, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 23, 2007). |

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| 10.7 | Assets Transfer and Share Issuance Agreement between the Company and Hanqiao Zheng, dated November 14, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 14, 2007). |
| 10.8 | Share Purchase Agreement between Company and Hanqiao Zheng on November 16, 2007 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 16, 2007). |
| 10.9 | Stock and Notes Purchase Agreement by and among the Company, Sifang Holdings Co., Ltd., Shanghai TCH Energy Technology Co., Ltd., Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated November 16, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 16, 2007). |

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| 10.10 | Amendment to Stock and Notes Purchase Agreement by and among the Company, Sifang Holdings Co., Ltd., Shanghai TCH Energy Technology Co., Ltd., Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated April 29, 2008 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 29, 2008). |
| 10.11 | Form of 10% Secured Convertible Promissory Note issued by the Company to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 16, 2007). |
| 10.12 | Form of 5% Secured Convertible Promissory Note issued by the Company to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 16, 2007). |
| 10.13 | 5% Secured Convertible Promissory Note in the aggregate principal amount of $5,000,000 issued by the Company to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 30, 2008). |
| 10.14 | Form of 5% Secured Convertible Promissory Note in the aggregate principal amount of $10,000,000 issued by the Company to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 30, 2008). |
| 10.15 | Registration Rights Agreement by and among the Company, Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated November 16, 2007 (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K dated November 16, 2007). |
| 10.16 | Stockholders Agreement by and among the Company, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Hanqiao Zheng and Ping Sun, dated November 16, 2007 (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K dated November 16, 2007). |
| 10.17 | Form of Nonstatutory Stock Option Agreement - Manager Employee (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 4, 2008). |
| 10.18 | 2007 Nonstatutory Stock Option Plan (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-8 dated November 13, 2007).* |
| 10.19 | Form of Nonstatutory Stock Option Agreement - Non-Manager Employee (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 8, 2008). |
| 10.20 | Stock Purchase Agreement by and among the Company, Sifang Holdings Co., Ltd., Shanghai TCH Energy Technology Co., Ltd. and Great Essential Investment, Ltd., dated April 15, 2009 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 20, 2009). |
| 10.21 | Registration Rights Agreement by and between the Company and Great Essential Investment, Ltd., dated April 15, 2009 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 20, 2009). |
| 10.22 | Note Subscription and Amendment Agreement between the Company and Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K |

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| | dated April 29, 2009). |
| 10.23 | Form of 8% Secured Convertible Promissory Note for the aggregate principal amount of $3,000,000 issued to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated April 29, 2009 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 29, 2009). |
| 10.24 | Form of Amended and Restated 5% Secured Convertible Promissory Note for the aggregate principal amount of $5,000,000 issued to Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated April 29, 2009 (filed as Exhibit 10.3 to the Company' s Current Report on Form 8-K dated April 29, 2009). |

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| 10.25 | Amended and Restated Registration Rights Agreement by and among the Company, Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., dated April 29, 2009 (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 29, 2009). |
| 10.26 | Supplementary Agreement by and between Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd. and Inner Mongolia Erdos Metallurgy Co., Ltd., dated December 1, 2009 (filed as Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 2009). |
| 10.27 | Joint Operation Agreement by and between Xi'an TCH Energy Technology Co., Ltd., a wholly owned subsidiary of the Company, and Inner Mongolia Erdos Metallurgy Co., Ltd., dated January 20, 2009 (filed as Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2009). |
| 10.28 | Short Term Loan Contract by and between Xi'an TCH Energy Technology Co., Ltd., a wholly owned subsidiary of the Company, and Industrial Bank Co., Ltd., Xi'an Branch, dated April 13, 2009 (filed as Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2009). |
| 10.29 | Capital Trust Loan Contract by and between Inner Mongolia Erdos TCH Energy Conservation Development Co., Ltd. and Beijing International Trust Co., Ltd. (filed as Exhibit 10.29 to the Company's Form 10-K for the year ended December 31, 2009). |
| 10.30 | Non-Promissory Short-Term Revolving Financing Agreement by and between Citi Bank (China) Limited, Shanghai Branch, Xi'an TCH Energy Technology Co., Ltd., a wholly owned subsidiary of the Company, and Inner Mongolia Erdos TCH Energy-Saving Development Co., Ltd., dated October 12, 2009 (filed as Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 2009). |
| 10.31 | Form of Independent Director Agreement. (filed as Exhibit 10.28 on the Company's Registration Statement on Form 10, filed on February 5, 2010).* |
| 10.32 | Employment Agreement between the Company and Guohua Ku (filed as Exhibit 10.29 on the Company's Registration Statement on Form 10, filed on February 5, 2010).* |
| 10.33 | Employment Agreement between the Company and Xinyu Peng (filed as Exhibit 10.30 on the Company's Registration Statement on Form 10, filed on February 5, 2010).* |
| 10.34 | Form of Employment Agreement between the Company and David Chong. (filed as Exhibit 10.34 on the Company's Form 10-K, for the year ended December 31, 2010). |
| 10.35 | Loan Agreement for Energy Saving and Emission Reduction between Xi'an TCH and Industrial Bank Co., Ltd., Xi'an Branch (filed as Exhibit 10.1 on the Company's Form 10-Q for the quarter ended June 30, 2010). |
| 10.36 | First Amendment to Convertible Promissory Note Transfer Agreement, dated July 24, 2012 (filed as Exhibit 10.1 on the Company's Form 10-Q for the quarter ended June 30, 2012). |
| 10.37 | Biomass Power Generation Asset Transfer Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 16, 2013). |
| 10.38 | |

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| | Biomass Power Generation Project Lease Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 16, 2013). |
| 10.39 | Partnership Agreement of Beijing Hongyuan Recycling Energy Investment Center, LLP, dated July 18, 2013 (filed as Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |

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| 10.40 | Loan Agreement, dated July 30, 2013, by and among, Industrial Bank Xi'an Branch, Beijing Hongyuan Recycling Energy Investment Center, LLP and Xi'an Zhonghong New Energy Technology Co., Ltd (filed as Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.41 | EPC Contract for Boxing CDQ Waste Heat Power Generation Project, dated July 22, 2013, by and between Xi'an Zhonghong New Energy Technology Co., Ltd and Xi'an Huaxin New Energy Co., Ltd (filed as Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.42 | EPC Contract for CDQ Power Generation Project of Xuzhou Tianyu Group, dated July 22, 2013, by and between Xi'an Zhonghong New Energy Technology Co., Ltd and Xi'an Huaxin New Energy Co., Ltd. (filed as Exhibit 10.4 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.43 | Cooperation Agreement, dated July 22, 2013, by and between Xi'an Zhonghong New Energy Technology Co., Ltd. and Jiangsu Tianyu Energy and Chemical Group Co., Ltd (filed as Exhibit 10.5 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.44 | Project Cooperation Agreement, dated July 22, 2013, by and between Xi'an Zhonghong New Energy Technology Co., Ltd. and Boxing County Chengli Gas Supply Co., Ltd (filed as Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.45 | Supplemental Agreement, dated July 2013, by and between Xi'an Zhonghong New Energy Technology Co., Ltd. and Boxing County Chengli Gas Supply Co., Ltd (filed as Exhibit 10.7 to the Company's Form 10-Q for the quarterly period ended September 30, 2013). |
| 10.46 | Waste Heat Power Generation Energy Management Cooperative Agreement with Zhongtai (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 17, 2013). |
| 10.47 | CDQ Power Generation Energy Management Cooperative Agreement with Rongfeng (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 17, 2013). |
| 10.48 | Early Repayment Agreement, dated December 22, 2014, by and between Xi'an TCH Energy Technology Co., Ltd. and Cinda Financial Leasing Co., Ltd. (filed as Exhibit 10.48 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014). |
| 10.49 | Repurchase Agreement for the Waste Heat Power Generation Project of Zhong Gang Group Bin Hai Enterprise Co., Ltd., dated December 22, 2014, by and between Xi'an TCH Energy Technology Co., Ltd and Zhong Gang Group Bin Hai Enterprise Co., Ltd. (filed as Exhibit 10.49 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014). |
| 10.50 | China Recycling Energy Corporation Omnibus Equity Plan (Incorporated by reference from Appendix A to the Company's Definitive Schedule 14A filed on April 30, 2015)*. |
| 10.51 | Repurchase Agreement for the Recycling Economy Project of Datong Coal Mine Tianjian Iron & Steel Co., Ltd., dated May 29, 2015, by and between Xi'an TCH Energy Technology Co., Ltd and Datong Coal Mine Tianjian Iron & Steel Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 4, 2015). |

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| 10.52 | Repurchase Agreement for the Waste Heat Power Generation Project of Sinosteel Group Jilin Ferroalloy Co., Ltd., dated June 18, 2015, by and between Xi'an TCH Energy Technology Co., Ltd and Sinosteel Group Jilin Ferroalloys Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 24, 2015). |
| 10.53 | Transfer Agreement of CDQ & Waste Heat Power Generation, dated November 16, 2015, by and between Xi'an TCH Energy Technology Co., Ltd and Tangshan Rongfeng Iron & Steel Co., Ltd. and Xi'an Huaxin New Energy Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 20, 2015). |

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| 10.54 | Xuzhou Zhongtai CDQ and Waste Heat Power Generation System Transfer Agreement, dated March 14, 2016, by Xi'an TCH Energy Technology Co., Ltd, Xuzhou Zhongtai Energy Technology Co., Ltd. and Xi'an Huaxin New Energy Co., Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 18, 2016). |
| 10.55 | Repurchase Agreement for Coking Coal Gas Power Generation Project, dated June 22, 2016, by and between Xi'an TCH Energy Technology Co., Ltd., and Qitaihe City Boli Yida Coal Selection Co., Ltd. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated August 15, 2016). |
| 14.1 | Code of Ethics (filed as Exhibit 14.1 to the Company's Current Report on Form 8-K dated December 2, 2009). |
| 21.1 | Subsidiaries† |
| 23.1 | Consent of Independent Registered Public Accounting Firm. † |
| 23.2 | Consent of Independent Registered Public Accounting Firm. † |
| 31.1 | Rule 13a-14(a)/15d-14(a) certification of the Chief Executive Officer. † |
| 31.2 | Rule 13a-14(a)/15d-14(a) certification of the Chief Financial Officer. † |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. † |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. † |
| 101.INS | XBRL Instance Document † |
| 101.SCH | XBRL Taxonomy Extension Schema Document † |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document † |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document † |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document † |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document † |

* Management contract, compensatory plan or arrangement.

† Exhibits filed herewith.

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