WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
November 16, 2009

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

Form 10-Q

(Mark One)

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2009

or

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________ to ________

Commission file number 001-34125

WUHAN GENERAL GROUP (CHINA), INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	84-1092589 (I.R.S. Employer Identification No.)
Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone Wuhan, Hubei, People's Republic of China (Address of Principal Executive Offices)	430200 (Zip Code)

86-27-5970-0069
(Registrant's Telephone Number, Including Area Code)

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 (the "Exchange Act") 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 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 “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of October 31, 2009, the registrant had a total of 25,351,950 shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At September 30, 2009 and December 31, 2008
(Stated in US Dollars)

	Note	September 30, 2009	(Audited) December 31, 2008
ASSETS			
Current Assets			
Cash	2 (e)	$ 819,830	$ 2,817,503
Restricted Cash	3	7,536,300	13,180,640
Notes Receivable	4	2,194	-
Accounts Receivable	2 (f) ,5	47,841,353	41,486,856
Other Receivable		1,276,277	1,719,083
Inventory	2 (g) ,6	22,830,077	8,395,467
Advances to Suppliers		15,885,956	20,274,473
Advances to Employees	7	116,318	189,516
Prepaid Expenses		798,607	92,279
Prepaid Taxes		526,079	604,610
Deferred Tax Asset	16	493,300	-
Total Current Assets		98,126,291	88,760,427
Non-Current Assets			
Real Property Available for Sale		1,103,048	1,100,376
Property, Plant & Equipment, net	2 (h) ,8	30,142,351	22,274,551
Land Use Rights, net	2 (j) ,9	12,188,397	12,297,429
Construction in Progress	10	20,226,806	30,276,011
Intangible Assets, net	2 (i) ,11	259,896	363,574
Total Assets		$ 162,046,789	$ 155,072,368
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Current Liabilities			
Bank Loans & Notes	12	31,244,022	35,171,690
Accounts Payable		8,751,493	8,420,678
Taxes Payable		2,410,337	1,109,548
Other Payable		8,832,835	7,708,323
Dividend Payable		543,363	193,804
Accrued Liabilities	13	3,550,798	2,805,558
Customer Deposits		5,388,333	4,614,370
Total Current Liabilities		60,721,181	60,023,971
Long Term Liabilities			
Bank Loans and Notes	12	2,925,002	1,458,959

Total Liabilities	63,646,183	61,482,930

See Accompanying Notes to the Financial Statements and Accountant's Report.

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Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At September 30, 2009 and December 31, 2008
(Stated in US Dollars)

	Note	September 30, 2009	(Audited) December 31, 2008
Stockholders' Equity			
Preferred Stock - $0.0001 Par Value, 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at September 30, 2009 and December 31, 2008		624	624
Additional Paid-in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid-in Capital - Warrants		3,484,011	3,687,794
Additional Paid-in Capital - Beneficial Conversion Feature		6,371,546	6,371,546
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at September 30, 2009 and December 31, 2008		635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital - Warrants		2,274,181	2,274,181
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 25,351,950 and 24,752,802 Shares Issued & Outstanding at September 30, 2009 and December 31, 2008, respectively	14	2,536	2,475
Additional Paid-in Capital		29,793,996	28,436,835
Statutory Reserve	2 (t) ,15	4,478,066	3,271,511
Retained Earnings		19,424,564	17,034,243
Accumulated Other Comprehensive Income	2 (u)	7,739,182	7,678,329
Total Stockholders' Equity		98,400,606	93,589,438
Total Liabilities & Stockholders' Equity		$ 162,046,789	$ 155,072,368

See Accompanying Notes to the Financial Statements and Accountant’s Report.

Wuhan General Group (China), Inc.
Consolidated Statements of Income
For the three and nine months ended September 30, 2009 and 2008
(Stated in US Dollars)

	Note	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue					
Sales	2 (l)	$ 24,720,005	$ 33,952,893	$ 59,949,344	$ 90,581,691
Cost of Sales	2 (m)	17,855,151	23,934,676	45,213,132	62,932,130
Gross Profit		6,864,854	10,018,217	14,736,212	27,649,561
Operating Expenses					
Selling Expenses	2 (n)	759,752	834,590	1,479,742	2,129,971
General & Administrative Expenses	2 (o)	1,463,970	2,112,731	4,395,556	6,602,031
Warranty Expense	2 (v) ,13	178,610	89,958	482,346	647,175
Total Operating Expense		2,402,332	3,037,279	6,357,644	9,379,177
Operating Income		4,462,522	6,980,938	8,378,568	18,270,384
Other Income (Expenses)					
Interest Income		288,862	288,177	494,258	636,626
Other Income (Expenses)		117,589	(1,375,291)	79,702	(1,492,718)
Interest Expense		(1,276,069)	(1,264,301)	(2,572,984)	(2,521,773)
Stock Penalty for late listing on NASDAQ	14	-	-	(1,153,439)	-
Total Other Income (Loss) & Expense		(869,618)	(2,351,415)	(3,152,463)	(3,377,865)
Earnings before Tax		3,592,904	4,629,523	5,226,105	14,892,519
Income Tax	2 (s) , 16	586,053	-	1,085,866	-
Net Income		$ 3,006,851	$ 4,629,523	$ 4,140,239	$ 14,892,519
Preferred Dividends Declared		183,276	215,829	543,363	733,289
Series A Constructive Preferred Dividend			-		
Series B Constructive Preferred Dividend			3,027,542		3,027,542
Income (Loss) Available to Common Shareholders		$ 2,823,575	1,386,152	$ 3,596,876	11,131,688
Earnings Per Share	17				
Basic		$ 0.11	$ 0.05	$ 0.14	$ 0.51
Diluted		$ 0.08	$ 0.03	$ 0.09	$ 0.33

Weighted Average Shares Outstanding				
Basic	25,285,902	25,930,537	25,013,117	21,907,429
Diluted	39,135,314	47,457,524	38,324,011	45,365,361
Comprehensive Income				
Net Income	$ 3,006,851	$ 4,629,523	$ 4,140,239	$ 14,892,519
Other Comprehensive Income				
Foreign Currency Translation Adjustment	15,984	189,698	60,853	4,255,515
Total Comprehensive Income	$ 3,022,835	$ 4,819,221	$ 4,201,092	$ 19,148,034

See Accompanying Notes to the Financial Statements and Accountant’s Report.

Wuhan General Group (China), Inc.
Consolidated Statements of Stockholders' Equity
For the nine months ended September 30, 2009 and the year ended December 31, 2008
(Stated in US Dollars)

Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- -standing	Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out- -standing	Amount	Additional Paid in Capital	Statutory Reserve
$ 3,687,794	$ 6,371,546	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	24,752,802	$ 2,475	$ 28,436,835	$ 3,271,51
							529,787	53	1,153,386	
							69,361	8	(8)	
(203,783)									203,783	
										1,206,55
$ 3,484,011	$ 6,371,546	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	25,351,950	$ 2,536	$ 29,793,996	$ 4,478,06

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.
Consolidated Statements of Stockholders' Equity
For the nine months ended September 30, 2009 and the year ended December 31, 2008
(Stated in US Dollars)

l al	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- -standing	Series B Convertible Preferred Stock Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out- -standing	Common Stock Amount	Additional Paid in Capital	Sta Re
90	6,572,334	10,501,982	-	-	-	-	-	19,712,446	1,971	12,349,602	6
	(1,860,866)		6,369,078	637	12,667,525	2,274,181	4,032,656				
75)		(4,130,436)	(15,000)	(2)	(30,368)		(8,963)	4,061,101	406	9,466,342	
	(150,287)							115,361	12	150,275	
										227,603	
								863,894	86	5,355,147	
	(873,387)									873,387	
										14,479	
											2,6
15	$ 3,687,794	$ 6,371,546	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	24,752,802	$ 2,475	$ 28,436,835	$ 3,2

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.
Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2009 and 2008
(Stated in US Dollars)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cash Flow from Operating Activities				
Cash Received from Customers	20,543,291	28,544,654	54,806,025	80,439,415
Cash Paid to Suppliers & Employees	(24,617,529)	(26,129,464)	(55,429,438)	(76,160,420)
Interest Received	288,862	288,177	494,258	636,626
Interest Paid	(1,276,069)	(1,264,301)	(2,572,984)	(2,521,773)
Taxes Paid	(591,022)	-	(1,227,465)	-
Miscellaneous Receipts	73,002	-	141,821	-
Cash Sourced/(Used) in Operating Activities	(5,579,465)	1,439,066	(3,787,783)	2,393,848
Cash Flows from Investing Activities				
Cash Invested in Restricted Time Deposits	(1,205,674)	(7,154,810)	5,644,340	(2,467,883)
Repayment of/(Investment in) Notes	(1,160)	-	(1,160)	1,891,127
Purchases of Plant & Equipment	(571,766)	-	(1,225,159)	
Payments for Construction of Plant & Equipment	(13,823)	-	(13,823)	(11,078,425)
Cash Used/(Sourced) in Investing Activities	(1,792,423)	(7,154,810)	4,404,198	(11,655,182)
Cash Flows from Financing Activities				
Proceeds from Issuance of Preferred Stock	-	10,624,501	-	10,624,501
Proceeds from Bank Loans and Notes	14,339,013	4,976,284	15,160,576	5,351,743
(Repayment of Bank Loans and Notes)	(8,189,240)		(17,622,200)	
Dividends Paid		(779,387)	(193,804)	(1,632,164)
Cash Sourced/(Used) in Financing Activities	6,149,773	14,821,399	(2,655,428)	14,344,081
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	(1,222,115)	9,105,655	(2,039,013)	5,082,747
Effect of Currency Translation	15,984	205,006	41,339	3,983,821
Cash & Cash Equivalents at Beginning of Period	2,025,960	748,871	2,817,503	992,965
Cash & Cash Equivalents at End of Period	$ 819,829	$ 10,059,532	$ 819,829	$ 10,059,533

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.
Reconciliation of Net Income to Cash Sourced/(Used) in Operating Activities
For the three and nine months ended September 30, 2009 and 2008
(Stated in US Dollars)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net Income	$ 3,006,851	4,629,523	$ 4,140,239	14,892,519
Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:				
Non Cash Compensation		1,673,841		1,983,787
Reclassification of assets related to Huangli Project from Construction in Progress to Inventory			1,745,496	
Stock			1,153,439	
Amortization	102,562	20,423	244,535	80,256
Depreciation	598,618	488,354	1,661,067	1,628,214
Decrease/(Increase) in Notes Receivable	12,416	-	(2,194)	(25,635)
Decrease/(Increase) in Accounts Receivable	(4,796,292)	(5,809,839)	(6,354,497)	(9,902,582)
Decrease/(Increase) in Other Receivable	(619,146)	3,196,118	439,409	2,351,769)
Decrease/(Increase) in Inventory	(890,465)	(4,007,822)	(14,434,609)	(7,955,302)
Decrease/(Increase) in Advances to Suppliers	(3,178,946)	3,190,928	4,388,517	(1,690,443)
Decrease/(Increase) in Advances to Employees	50,602	3,696	73,198	(165,193)
Decrease/(Increase) in Prepaid Expenses	(617,744)		(706,328)	
Decrease/(Increase) in Prepaid Taxes	(132,347)	(201,755)	78,531	(174,722)
Decrease/(Increase) in Deferred Tax Asset	(4,969)		(493,300)	
Increase/(Decrease) in Accounts Payable	(731,264)	1,679,583	330,816	2,203,993
Increase/(Decrease) in Taxes Payable	790,144	(1,989)	1,300,789	(238,598)
Increase/(Decrease) in Other Payable	(775,025)	(574,417)	1,127,905	130,530
Increase/(Decrease) in Accrued Liabilities	379,232	(53,059)	745,241	1,841,083
Increase/(Decrease) in Customer Deposits	1,226,308	(2,794,519)	773,963	(2,565,828)
Total of all adjustments	(8,586,316)	(3,190,457)	(7,928,022)	(12,498,671)
Net Cash Provided by Operating Activities	$ (5,579,465)	$ 1,439,066	$ (3,787,783)	$ 2,393,848

See Accompanying Notes to the Financial Statements and Accountant’s Report.

Wuhan General Group (China), Inc.
Notes to Financial Statements
(Stated in US Dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Wuhan General Group (China), Inc. (the “Company”) is a holding company whose primary business operations are conducted through its operating subsidiaries Wuhan Blower Co., Ltd. (“Wuhan Blower”), Wuhan Generating Equipment Co., Ltd. (“Wuhan Generating Equipment”) and Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. (“Wuhan Xingelin Equipment”). Wuhan Blower is a China-based manufacturer of industrial blowers that principally are components of steam driven electrical power generation plants. Wuhan Generating Equipment is a China-based manufacturer of industrial steam and water turbines, also principally for use in electrical power generation plants. Wuhan Xingelin Equipment is a China-based manufacturer of blower silencers, connectors, and other general spare parts for blowers and electrical equipment.

The Company was formed under the laws of the State of Colorado on July 19, 1988 as Riverside Capital, Inc. On March 18, 1992, the Company changed its name to United National Film Corporation. In June 2001, the Company suspended all business activities and became a “shell company.”

In 2006, the Company effectively dissolved or abandoned all subsidiaries, which may or may not have been active in periods prior to June 2001. On October 20, 2006, the Company changed its state of incorporation from Colorado to Nevada by means of a merger with and into a Nevada corporation formed on September 12, 2006 solely for the purpose of effecting the reincorporation.

On February 7, 2007, the Company entered into a share exchange agreement with Fame Good International Limited (“Fame”) and Universe Faith Group Limited (“UFG”). Prior to the share exchange, Fame was the sole stockholder of UFG, which is the parent company of Wuhan Blower and Wuhan Generating Equipment. Pursuant to the share exchange, UFG became a wholly owned subsidiary of the Company and Fame became the Company’s controlling stockholder. On March 13, 2007, the Company changed its name from United National Film Corporation to Wuhan General Group (China), Inc.

The share exchange transaction has been accounted for as a recapitalization of UFG where the Company (the legal acquirer) is considered the accounting acquiree and UFG (the legal acquiree) is considered the accounting acquirer. As a result of this transaction, the Company is deemed to be a continuation of the business of UFG.

Accordingly, the financial data included in the accompanying consolidated financial statements for all periods prior to February 7, 2007 is that of the accounting acquirer (UFG). The historical stockholders’ equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented. See also Note 14 – Capitalization.

On December 25, 2008, Wuhan Blower, entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd. (the “Seller”) pursuant to which Wuhan Blower acquired certain assets owned by Seller, including certain buildings, equipment, land use rights, and construction in progress. An 8-K filed with the U.S. Securities and Exchange Commission on February 5, 2009 further details the transaction. Title of the assets purchased under the above agreement has been recorded under Wuhan Xingelin Equipment. Wuhan Blower currently owns 100% beneficial interest in Wuhan Xingelin Equipment. Wuhan Xingelin Equipment is incorporated under the laws of the PRC. The purchased assets have been accounted for on Wuhan Xingelin Equipment’s books as contributed capital.

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co Ltd (“Zhuhai”). The re-appraisal provides evidence that found that the purchase price of the assets was reasonable. Zhuhai noted that certain documents are being processed by the local government authorities for registration and transfer of title. See also Note 8 – Property, Plant, and Equipment.

Wuhan General Group (China), Inc.
Notes to Financial Statements
(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

The Company maintains its general ledger and journals with the accrual method of accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

(b) Consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating Equipment and Wuhan Xingelin Equipment. Inter-company transactions, such as sales, cost of sales, due to/due from balances, investment in subsidiaries, and subsidiaries' capitalization have been eliminated.

(c) Economic and Political Risks

The Company's operations are conducted in the People's Republic of China (the "PRC"). Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

(d) Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions include, but are not limited to, revenue recognition under the percentage of completion method, the valuation of accounts receivable, inventories, deferred income taxes and the estimation of useful lives of property, plant, and equipment. Actual results could differ from these estimates.

(e) Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The company maintains bank accounts in the People's Republic of China and in the United States of America.

(f) Accounts Receivable-Trade

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding trade receivables. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding trade receivables have been determined to be uncollectible. See also Note 5 – Accounts Receivable.

(g) Inventory

Inventory, consisting of raw materials, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead.

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Wuhan General Group (China), Inc.
Notes to Financial Statements
(Stated in US Dollars)

(h) Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method with 5% salvage value. Estimated useful lives of the property, plant and equipment are as follows:

Buildings	30 years
Machinery and Equipment	10 years
Furniture and Fixtures	5 years
Motor Vehicles	5 years

(i) Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight-line method. Estimated useful lives of intangibles are as follows:

Technical Licenses	10 years
Trademark	20 years

Annually the Company reviews the intangible assets for impairment, in accordance with FASB 142 Impairment of Long-Lived Assets. The company considers whether the estimated future benefits of the technical licenses and trademarks will be fully realized over the course of their estimated useful lives. If the technical licenses become obsolete, or trademarks are unsuccessfully defended against infringement by third-parties, the Company will consider future cash flows and relevant factors to quantify the level of impairment and record impairment adjustments accordingly. The Company has not yet recognized any impairment upon the intangible assets.

(j) Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over the useful life of 50 years for the Wuhan Blower and Wuhan Generating Equipment campus, and of 30 years for the Wuhan Xingelin Equipment campus.

(k) Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of September 30, 2009 and December 31, 2008, there were no significant impairments of its long-lived assets.

(l) Revenue Recognition

Revenue from the sale of blower products, generating equipment and other general equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. The Company believes that the installation is not essential to the functionality of the equipment. This is because the equipment is tested at the Company’s facilities before it is shipped and consequently, the equipment is completed and functional at the point that it is delivered to the customer. Additionally, since the Company’s products generally are a smaller component of a large project, after delivery, the Company has no control over how the customer will use the delivered products and sometimes other companies are used to install the equipment purchased from us. Finally, our customers do not have a contractual right to return products to the Company, and we historically have experienced virtually no returns.

Wuhan General Group (China), Inc.
Notes to Financial Statements
(Stated in US Dollars)

Revenue from product sales is recognized when the goods are delivered and title has passed. Product sales revenue represents the invoiced value of goods, net of the value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17 percent of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

Revenue from "Turn-Key" construction projects is recognized using the percentage-of-completion method of accounting and therefore takes into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of AICPA Statement of Position 81-1, "Accounting for Performance of Construction - Type and Certain Production - Type Contracts."

Revenue from the rendering of maintenance services is recognized when such services are provided.

Provision is made for foreseeable losses as soon as they are anticipated by management.

(m) Cost of Sales

The Company's cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs.

(n) Selling Expenses

Selling expenses are comprised of outbound freight, salary for the sales force, client entertainment, commissions, depreciation, advertising, and travel and lodging expenses.

(o) General & Administrative Expenses

General and administrative expenses include outside consulting services, research & development, executive compensation, quality control, and general overhead such as the finance department, administrative staff, and depreciation and amortization expense.

(p) Advertising

The Company expenses all advertising costs as incurred.

(q) Research and Development

The Company expenses all research and development costs as incurred.

(r) Foreign Currency Translation

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

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For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

Exchange Rates	9/30/2009	12/31/2008	9/30/2008
Period end RMB : US$ exchange rate	6.8376	6.8542	6.8551
Average period RMB : US$ exchange rate	6.8425	6.9622	6.9989

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US$ at the rates used in translation.

(s) Income Taxes

The Company uses the accrual method of accounting to determine and report its taxable income and tax credits for the year in which they are available. The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People's Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Effective January 1, 2008, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises that had already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized. The Company's operating subsidiaries expect to be subject to a 15% income tax rate starting January 1, 2009.

The Company is subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of: -

	Taxable Income		
Rate	Over	But Not Over	Of Amount Over
15%	0	50,000	0
25%	50,000	75,000	50,000
34%	75,000	100,000	75,000

39%	100,000	335,000	100,000
34%	335,000	10,000,000	335,000
35%	10,000,000	15,000,000	10,000,000
38%	15,000,000	18,333,333	15,000,000
35%	18,333,333	-	-

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(t) Statutory Reserve

In accordance with PRC laws, statutory reserve refers to the appropriation from net income, to the account “statutory reserve” to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise’s PRC registered capital.

(u) Other Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company’s current component of other comprehensive income is the foreign currency translation adjustment.

(v) Warranty Expense Accruals

The Company reviews its actual warranty expenses incurred, relative to warranty expense accruals on an annual basis. Based on the actual warranty expenses incurred, the Company evaluates the reasonableness of its estimates and may adjust the assumptions applied in making the warranty expense accruals. If the estimated warranty expenses versus the actual expense are appreciably different, the Company will adjust the warranty expenses accordingly. When developing warranty expense accruals, the Company considers improvements in its production processes, in-house technical expertise, and operational experiences. See also Note 13 – Warranty Liability.

(w) Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock. See also Note 17 – Earnings Per Share.

(x) Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

In June 2009, FASB issued FASB Statement No. 166, Accounting for Transfers for Financial Assets and FASB Statement No. 167, a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities.

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures.

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Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance.

On July 1, 2009, FASB issued FASB Statement No. 168, The “FASB Accounting Standards Codification” and the Hierarchy of Generally Accepted Accounting Principles. The ASC has become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities and provides that all such guidance carries an equal level of authority. The ASC is not intended to change or alter existing GAAP. The ASC is effective for interim and annual periods ending after September 15, 2009.

The Company is currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on its consolidated results of operations and financial condition.

3. RESTRICTED CASH

Restricted Cash represents cash placed with banks to secure banking facilities, which are comprised of loans and notes payables in addition to other collateral.

4. NOTES RECEIVABLE

	September 30, 2009	December 31, 2008
Notes Receivable	$ 2,194	$ -
Less : Allowance for Bad Debts	-	-
	$ 2,194	$ -

There were no Notes Receivable at December 31, 2008. Notes Receivable are typically in the form of bank drafts from customers. Bank drafts are liquid instruments that can be either (a) endorsed to the Company’s vendors, or (b) discounted to the Company’s own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they are normally due at a later point in time; therefore, these bank drafts represent different risk and reward characteristics.

5. ACCOUNTS RECEIVABLE

	September 30, 2009	December 31, 2008
Total Accounts Receivable-Trade	$ 50,359,319	$ 44,619,549
Less : Allowance for Bad Debt	(2,517,966)	(3,132,693)
	$ 47,841,353	$ 41,486,856
Allowance for Bad Debts		

Beginning Balance	$	(3,132,693)	$	(1,245,883)
Allowance Provided		(1,847,542)		(1,886,810)
Less : Bad Debt Written Off		2,462,269		-
Ending Balance	$	(2,517,966)	$	(3,132,693)

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6. INVENTORY

	September 30, 2009	December 31, 2008
Raw Materials	$ 5,668,848	$ 1,763,077
Work in Progress	14,544,293	4,065,249
Finished Goods	2,616,936	2,567,141
	$ 22,830,077	$ 8,395,467

7. ADVANCES TO EMPLOYEES

Advances to Employees of $113,102 and $189,516 as of September 30, 2009 and December 31, 2008, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment, which are stated at cost less depreciation, were composed of the following: -

At September 30, 2009 Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Buildings	$ 11039342	$ 8,286,936	$ -	$ 19,326,278
Machinery & Equipment	1,893,105	11,661,714	1,904,723	$ 15,459,542
Furniture & Fixtures	367,972	15,483	-	$ 383,455
Auto	847,330	267,028	20,914	$ 1,135,272
Other	74,636	-	5,365	$ 80,001
	14,222,384	20,231,161	1,931,002	36,384,547
Less: Accumulated Depreciation				
Buildings	(2,119,062)	(110,152)	-	$ (2,229,214)
Machinery & Equipment	(767,064)	(2,067,025)	(199,815)	$ (3,033,904)
Furniture & Fixtures	(266,086)	(5,437)	-	$ (271,523)
Auto	(610,155)	(77,249)	(2,286)	$ (689,690)
Other	(17,644)	-	(221)	$ (17,867)
	(3,780,010)	(2,259,863)	(202,323)	(6,242,196)
Property, Plant, & Equipment, Net	$ 10,442,374	$ 17,971,298	$ 1,728,679	$ 30,142,351

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At December 31, 2008 Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Buildings	11,011,657	-	-	11,011,657
Machinery & Equipment	1,888,521	10,551,443	1,916,553	14,356,517
Furniture & Fixtures	362,007	13,781	-	375,788
Auto	776,312	260,951	-	1,037,263
Other	74,455	-	-	74,455
	14,112,952	10,826,175	1,916,553	26,855,680
Less: Accumulated Depreciation				
Buildings	(1,874,508)	-	-	(1,874,508)
Machinery & Equipment	(632,150)	(1,260,420)	(32,125)	(1,924,695)
Furniture & Fixtures	(221,068)	(3,826)	-	(224,894)
Auto	(501,132)	(49,070)	-	(550,202)
Other	(6,830)	-	-	(6,830)
	(3,235,688)	(1,313,316)	(32,125)	(4,581,129)
Property, Plant, & Equipment, Net	$ 10,877,264	$ 9,512,859	$ 1,884,428	$ 22,274,551

The shared campus of Wuhan Blower and Wuhan Generating Equipment consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company's new turbine manufacturing workshop will provide approximately 215,482 square feet (20,019 square meters) of floor space. A new office building will house the business operations of Wuhan Generating Equipment and will provide an additional 134,656 square feet (12,510 square meters) of floor space.

The newly acquired campus of Wuhan Xingelin Equipment will house the following buildings when fully built out and complete:

	Square Feet	Square Meters
Workshop 1	136,131	12,647.00
Workshop 2	90,363	8,395.00
Workshop 3	95,777	8,898.00
Dormitories	67,662	6,286.08
Commercial Shops	5,285	491.00
Warehouse	102,155	9,490.60
Office Buildings	152,994	14,213.64
	650,367	60,421.32

The local government has already approved the architectural plans for all of the buildings. Currently Workshop 1, Warehouse, Dormitories, and Commercial Shops have yet to be built. Workshop 2 and Workshop 3 are fully built. The Office Building is currently under construction but has yet to be completed.

In order to complete the building of the Workshop 1 the Company will need to pay approximately an additional $1.78 million (RMB 12,242,721) beyond the amount committed in the asset purchase agreement.

9. LAND USE RIGHTS

At September 30, 2009 Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Land Use Rights	$ 2,199,244	$ -	$ 10,499,195	$ 12,698,439
Less : Accumulated Amortization	(258,865)	-	(251,177)	(510,042)
Land Use Rights, Net	$ 1,940,379	$ -	$ 10,248,018	$ 12,188,397

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At December 31, 2008 Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Land Use Rights	$ 2,117,709	$ -	$ 10,473,768	$ 12,591,477
Less: Accumulated Amortization	(206,766)	-	(87,282)	(294,049)
Land Use Rights, Net	$ 1,910,943	$ -	$ 10,386,486	$ 12,297,429

The Company acquired through Wuhan Hi-Tech Blower Manufacturing Co. Ltd. (WBM) the Land Use Rights for three parcels of land totaling 1,170,000 square feet for a term of 50 years from March 1, 2004 to March 1, 2054 for $1,856,757 (RMB 14,515,200). The land has been used for the Company's facilities including the blower manufacturing facilities, turbine manufacturing facility, warehouses, testing facilities, dormitories, and administrative buildings for its Wuhan Blower and Wuhan Generating Equipment subsidiaries.

The parcel of land purchased in the asset acquisition and now carried on the books of Wuhan Xingelin Equipment is approximately 792,547 square feet (73,630.05 square meters). The land will be used for Wuhan Xingelin Equipment's office building, workshops, and dormitories. The land use right will be amortized over 30 years.

10. CONSTRUCTION IN PROGRESS

Construction in progress represents the direct costs of design, acquisition, building construction, building improvements, and land improvement. These costs are capitalized in the Construction-in-Progress account until substantially all activities necessary to prepare the assets for their intended use are completed. At such point, the Construction-in-Progress account is closed and the capitalized costs are transferred to their appropriate asset classification. No depreciation is provided until it is completed and ready for the intended use.

The assets reported under construction in progress relate to various projects of our operating subsidiaries. For Wuhan Blower, these projects include new workshops, parking area, dormitory, office building, testing facility and other miscellaneous items to be used for improvements in these projects. The Company anticipates that the workshops and office building will be ready for use in the fourth quarter of 2009. For Wuhan Generating, these projects include a new workshop and related materials, office building and the installation of equipment in the workshop. The workshop was completed in the beginning of 2009. The equipment to be installed will be ready for use in the fourth quarter of 2009, and the office building, which is currently under construction, will be ready for use by the end of 2010. Finally, for Wuhan Xingelin, these projects relate to its new workshop and office building. The Company expects the workshop to be ready for use by the end of 2009 and the office building, which is currently under construction, to be ready for use by the end of 2010.

Construction in Progress increased by approximately $20.4 million from December 31, 2007 to December 31, 2008. Approximately $11.0 million of this increase was attributable to the acquisition of construction in progress accounts related to the purchase of Wuhan Xingelin in 2008. Approximately $7.2 million was attributable to investments in the turbine facility of Wuhan Generating. Also, during this same period, certain assets that were completed and put into use were moved from the construction in progress account to the property, plant and equipment account.

The reclassification of inventory related to the Huangli Project was a correction of a classification error. There was no impact on the Company's income statement from the correction of this error. The reclassification caused a decrease in construction in progress and a corresponding increase in the inventory accounts. The related total of current assets increased while the total of non-current assets decreased. Total assets remained unchanged.

The following table details the assets that are accounted for in the Construction-in-Progress account at September 30, 2009 and December 31, 2008:

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Subsidiary	Description	At September 30, 2009	At December 31, 2008
Wuhan Blower	Blower Workshop	$ 691,131	$ 631,839
Wuhan Blower	Bus Parking	4,388	4,377
Wuhan Blower	Dormitory	20,475	20,425
Wuhan Blower	Equipment Requiring Installation	439,964	-
Wuhan Blower	Landscaping	123,409	4,934
Wuhan Blower	Office Building	523,810	471,959
Wuhan Blower	Other	392,483	391,533
Wuhan Blower	Security System	293	292
Wuhan Blower	Street	585	584
Wuhan Blower	Testing Facility	11,408	11,380
Wuhan Blower	Wall	321,246	320,468
Wuhan Blower	Warehouse	33,599	33,518
Wuhan Blower	Badminton courts	24,129	-
Wuhan Generating	Capitalized Interest	11,884	131,622
Wuhan Generating	Equipment Requiring Installation	2,641,557	3,374,825
Wuhan Generating	Generating Workshop	9,220	5,745,581
Wuhan Generating	Generating Workshop-Materials	-	4,481,922
Wuhan Generating	Generating Office Building	3,427,699	3,346,449
Wuhan Generating	Miscellaneous	190	259
Wuhan Generating	Shipping Costs	-	10,213
Wuhan Generating	Huangli Project	3,438	-
Wuhan Xingelin	Landscaping	146,271	145,917
Wuhan Xingelin	Workshop	4,849,304	4,837,559
Wuhan Xingelin	Office Building	5,526,572	5,289,083
Wuhan Xingelin	Utility Systems Setup	1,023,751	1,021,272
		$ 20,226,806	$ 30,276,011

11. INTANGIBLE ASSETS

The following categories of assets are stated at cost less accumulated amortization.

Category of Asset	September 30, 2009	December 31, 2008
Trademarks	$ 106,031	$ 145,896
Mitsubishi License	302,870	335,980
Tianyu CAD License	3,958	4,450
Sunway CAD License	16,820	16,778
Microsoft License	12,221	13,934
	$ 441,900	$ 517,038

Less: Accumulated Amortization				
Trademarks	$	(39,675)	$	(32,827)
Mitsubishi License		(133,160)		(113,599)
Tianyu CAD License		(1,647)		(1,391)
Sunway CAD License		(2,205)		(1,119)
Microsoft License		(5,317)		(4,528)
	$	(182,004)	$	(153,464)
Intangible Assets, Net	$	259,896	$	363,574

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The weighted average amortization period for the Company's intangible assets at September 30, 2009 and December 31, 2008 were 12.82 years and 12.82 years, respectively.

The weighted average amortization period for the Trademark is 20 years.

The weighted average amortization period for the Mitsubishi, CAD, and Microsoft technical licenses is 10 years.

12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at September 30, 2009 and December 31, 2008, for the Company's bank loans and notes payable.

Short–term Loans				Interest	At		At	
Subsidiary	Type	Name of Creditor	Due Date	Rate Per Annum	September 30, 2009		December 31, 2008	
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/20/2009	8.96%	$	-	$	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/22/2009	8.96%		-		729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/25/2009	8.96%		-		729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/27/2009	8.96%		-		729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/29/2009	8.96%		-		729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/4/2009	8.96%		-		729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/23/2009	8.96%		-		583,584
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/26/2009	8.96%				1,167,168
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/24/2009	8.96%				1,167,168
Wuhan Blower	Bank Loans	Wuhan Kangfuman Consulting Company	On Demand	-		292,500		-
Wuhan Blower	Bank Loans	Wuhan Jiangan Huachuang Loan Company	On Demand	19.20%		2,660,729		-
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%		731,251		-
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%		877,501		-
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/13/2010	5.84%		2,925,003		-
			8/28/2010	5.84%		3,656,254		-

Wuhan Blower	Bank Loans	Agricultural Bank of China				
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/6/2010	5.84%	731,251	-
Wuhan Blower	Bank Loans	Bank of China, Ltd.	3/12/2010	5.40%	804,375	-
Subtotal					$ 12,678,864	$ 7,294,797
Wuhan Blower	Notes Payable	China Minsheng Banking Corp., Ltd.	1/22/2009		-	1,458,959
Wuhan Blower	Notes Payable	Citic Industrial Bank	3/27/2009		-	3,647,399
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		-	1,313,064
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	3/2/2009		-	1,750,751
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		-	1,313,064
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/10/2009		-	579,760
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/18/2009		-	744,070
Wuhan Blower	Notes Payable	Wuhan Pinghu materials Company	12/2/2009		548,438	-
Wuhan Blower	Notes Payable	Wuhan Zhongxingshimao materials Company	12/4/2009		305,827	-
Wuhan Blower	Notes Payable	Bank of Communications	12/10/2009		4,095,004	-
Wuhan Blower	Notes Payable	Wuhan Pinghu materials Company	1/24/2010		892,126	-
Subtotal					$ 5,841,395	$ 10,807,067
Wuhan Generating	Bank Loans	Citic Industrial Bank	3/2/2009	8.22%	-	2,917,919
Wuhan Generating	Bank Loans	Shanghai Pudong Development Bank	1/7/2009	7.47%	-	1,458,959
Subtotal					$ -	$ 4,376,878
Wuhan Generating	Notes Payable	Bank of Communications	6/26/2009			2,480,231
Wuhan Generating	Notes Payable	Bank of Communications	1/15/2009		-	1,458,959
Wuhan Generating	Notes Payable	Bank of Communications	1/16/2009		-	4,376,878
Wuhan Generating	Notes Payable	Bank of Communications	6/24/2009		-	4,376,878
Wuhan Generating	Notes Payable	Wuhan Fuxintai Trade Company	1/22/2010		5,850,006	-

Wuhan Generating	Notes Payable	Bank of Communications	12/16/2009		6,873,757	-
Subtotal					$ 12,723,763	$ 12,692,947
Total					$ 31,244,022	$ 35,171,690
Long-term Loans						
Wuhan Generating	Long Term Loan	Bank of Communications	12/23/2010	5.67%	1,462,501	1,458,959
Wuhan Generating	Long Term Loan	Bank of Communications	1/15/2011	5.40%	1,462,501	-
Total					$ 2,925,002	$ 1,458,959

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Banking facilities extended by the Bank of Communication, Guangdong Development Bank and Agricultural Bank of China were secured by the Company's mortgage of real property.

The Bank of China Loan is collateralized by the technical license with Mitsubishi.

Certain notes payable, as indicated above, do not have a stated rate of interest. These notes are payable on demand to the Company's creditors. The creditors have given extended credit terms secured by pledge of the Company's restricted cash.

13. WARRANTY LIABILITY

Warranty liability is accrued and carried on the balance sheet under Accrued Liabilities. The Company makes its warranty accrual based on individual assessment of each contract because terms and conditions vary. The Company's typical sales contracts provide for a warranty period of 12-18 months following product installation.

The following table summarizes the activity related to the Company's product warranty liability for the nine months ended September 30, 2009 and the year ended December 31, 2008: -

		September 30, 2009		December 31, 2008
Balance at beginning of period	$	1,154,613	$	1,541,771
Accruals for current & pre-existing warranties issued during period		482,346		469,586
Less : Settlements made during period		-		(60,291)
Less: Reversals and warranty expirations		-		(796,453)
Balance at end of period	$	1,636,959	$	1,154,613

14. CAPITALIZATION

The following table provides the total number of shares of fully diluted common stock as of September 30, 2009:

	Number of Shares
Common Stock Outstanding	25,351,950
Common Stock Issuable upon:	
- Conversion of Preferred Stock	12,595,531
- Exercise of Warrants	12,265,993
- Exercise of Stock Options	80,000
Total Amount of Fully Diluted Common Stock	50,293,474

Penalty Shares

Certain investors were issued shares of common stock as a penalty for the Company's failure to achieve listing status on NASDAQ by a predetermined date, which was a term stipulated in the Stock Purchase Agreement dated February 7, 2007. During the nine months ended September 30, 2009, certain investors were awarded an aggregate of 529,787 shares of common stock. The Company recorded expenses to its statements of income for the issuance of these shares totaling $1,153,439. The Company used a stock price of $2.30 to compute the expense.

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We used three methods to derive the fair value of the shares issued as a penalty and the valuation is a blend of the values derived from these three methods on the specified dates: comparative valuation, stock price trading and analysis and discounted future earnings. To arrive at the fair value of these shares, we have taken the following into consideration: the share price of similar companies, price-earnings ratio, average daily volume, closing price, trading volume, hypothetical block sales price, future growth rate and discount rate.

Series A Convertible Preferred Stock

The Series A Convertible Preferred Stock is convertible into shares of the Company's common stock on a one-for-one basis. Holders of Series A Convertible Preferred Stock are not required to pay a conversion price or any other consideration in order to convert their Series A Convertible Preferred Stock into common stock, and such holders are entitled to a dividend equal to 5% per annum of the amount invested, subject to adjustment. These dividends are payable quarterly. The Company must pay any unpaid dividends on our Series A Convertible Preferred Stock before paying dividends on our common stock. Except with respect to specified transactions that may affect our Series A Convertible Preferred Stock and except as otherwise required by Nevada law, the Series A Convertible Preferred Stock has no voting rights. In the event of our liquidation, the holders of our Series A Convertible Preferred Stock shall be entitled to receive, out of our assets available for distribution to stockholders, an amount equal to $2.33 per share plus any accrued and unpaid dividends before any payment can be made to the holders of our common stock. As of September 30, 2009, there were 6,241,453 outstanding shares of Series A Convertible Preferred Stock.

Series B Convertible Preferred Stock

The Series B Convertible Preferred Stock ranks senior to the Company's common stock and junior to the Company's Series A Convertible Preferred Stock. The shares of Series B Convertible Preferred Stock are convertible on a one-for-one basis into shares of the Company's common stock. Except with respect to specified transactions that may affect the rights, preferences, privileges or voting power of the Series B Convertible Preferred Stock and except as otherwise required by Nevada law, the Series B Convertible Preferred Stock has no voting rights. The Series B Convertible Preferred Stock is non-redeemable and is not entitled to dividends. As of September 30, 2009, there were 6,354,078 outstanding shares of Series B Convertible Preferred Stock.

Warrants

Our outstanding Series A warrants are exercisable for an aggregate of 6,172,531 shares of common stock as of September 30, 2009. The Series A Warrants have an exercise price of $2.57 per share and expire on February 7, 2012.

Our outstanding Series B Warrants are exercisable for an aggregate of 3,821,446 shares of common stock as of September 30, 2009. The Series B Warrants have an exercise price of $2.57 and expire on February 7, 2012.

The Series J Warrants expired on November 7, 2008.

The Series C, AA, BB and JJ Warrants relate to the Series A Convertible Preferred Stock, Series A Warrants, Series B Warrants and Series J Warrants, respectively. The exercise prices of the Series C, AA, BB and JJ Warrants are $2.57, $2.83, $2.83 and $2.57, respectively. The Series C, AA, BB and JJ Warrants expire on February 7, 2017. As of September 30, 2009, our outstanding Series C, AA, BB and JJ Warrants were exercisable for 635,710, 617,253, 382,145 and 636,908 shares of common stock, respectively.

Prior to February 7, 2009, the terms of the Company's outstanding Series A Convertible Preferred Stock and warrants provided for a downward adjustment in the conversion and exercise price in the event that the Company issues shares of common stock or securities convertible into common stock for consideration less than the conversion or exercise price of these previously issued securities. This anti-dilution provision expired on February 7, 2009, which was two years after the date of issuance of such securities.

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15. COMMITMENTS OF STATUTORY RESERVE

In compliance with PRC laws, the Company is required to appropriate 10% of its net income to its statutory reserve up to a maximum of 50% of an enterprise's registered Paid-in capital. The Company had future unfunded commitments, as provided below.

	September 30, 2009	December 31, 2008
Registered Capital in PRC	$ 35,982,303	$ 43,826,004
50% maximum thereof	17,991,152	21,913,001
Less: Amounts Appropriated to Statutory Reserve	(4,478,066)	(3,271,511)
Unfunded Commitment	$ 13,513,086	$ 18,641,490

16. INCOME TAXES

On February 7, 2007, income from the Company's foreign subsidiaries became subject to U.S. income tax liability; however, this tax is deferred until foreign source income is repatriated to the Company, which has not yet occurred.

The Company has also retained an U.S. CPA firm to aide in preparation of its U.S. income tax returns in order to maintain a high level of compliance with U.S. tax laws.

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporation income tax rate is 25%. As a business incentive, the Company was approved as a foreign investment enterprise in March 2007, and in accordance with the relevant regulations regarding the favorable tax treatment for a foreign investment enterprise, the Company was entitled to a two-year tax exemption followed by a three-year half exemption. For the years ended December 31, 2008 and 2007, the Company was still within the two year tax exemption period, and accordingly, made no provision for income taxes. The Company's operating subsidiaries expect to be subject to a 15% income tax rate for the fiscal year 2009, starting January 1, 2009.

Effective January 1, 2008, the PRC income tax rules were changed. The PRC government implemented a new 25% tax rate for all enterprises whether domestic or foreign enterprise, and abolished the tax holiday. However, the PRC government has established grandfathering transition rules that permit enterprises that had received an income tax exemption prior to January 1, 2008 to continue to enjoy the exemption until the original expiration date.

The provision for income taxes in the PRC for China sourced net income amounted to $1,085,866 and $0 for the the nine-month periods ended September 30, 2009 and 2008, respectively.

Income before taxes and the provision for taxes consisted of the following:

	September 30, 2009	September 30, 2008
Income before taxes:		
U.S.	$ 0	$ 0
China	5,226,105	14,892,519
Total income before taxes	5,226,105	14,892,519

Provision for taxes:				
Current:				
U.S. Federal		0		0
State		0		0
China		1,085,866		0
		1,085,866		0
Deferred:				
U.S. Federal		0		0
China		493,300		0
		493,300		0
Total provision for taxes	$	592,566	$	-
Effective tax rate		20.78%		N/A

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009	December 31, 2008
Deferred tax assets		
Bad debt expense & Accrual expense	$ 493,300	$ 0
	493,300	0
Valuation allowance	0	0
Total deferred tax assets	493,300	0
Deferred tax liabilities		
Total deferred tax liabilities	0	0
Net deferred tax assets	493,300	0
Reported as:		
Current deferred tax assets	493,300	0
Non-current deferred tax assets(1)	0	0
Non-current deferred tax liabilities	0	0
Net deferred taxes	$ 493,300	$ 0

17. EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

	three months ended September 30, 2009	three months ended September 30, 2008	nine months ended September 30, 2009	nine months ended September 30, 2008
Net Income	$ 3,006,848	$ 4,629,523	$ 4,140,236	$ 14,892,519
Preferred Dividends	183,276	215,829	543,363	733,289
Series A Constructive Preferred Dividend	-	-	-	-
Series B Constructive Preferred Dividend	-	3,027,542	-	3,027,542
Constructive Preferred Dividends				
Income Available to Common Stockholders	$ 2,823,572	$ 1,386,152	$ 3,596,873	$ 11,131,688
Original Shares	24,752,802	22,857,711	24,752,802	19,712,446
-Addition to Common Stock from Issuance	-	90,207	-	299,156
-Addition to Common Stock from Actual Conversion	533,100	2,982,619	260,315	1,895,828
Basic Weighted Average Shares Outstanding	25,285,902	25,930,537	25,013,117	21,907,429
Dilutive Shares:				
-Addition to Common Stock if Preferred Stock Had Been Converted	12,595,531	8,413,944	12,595,531	7,371,588
-Addition to Common Stock if Warrants Had Been Exercised	715,363	13,113,043	1,253,881	16,083,880

-Addition to Common Stock if Employee & Director Stock Options Had Been Exercised		-		-		-		2,464
Diluted Weighted Average Shares Outstanding:		39,135,314		47,457,524		38,324,011		45,365,361
Earni ngs Per Share								
-Basic	$	0.11	$	0.05	$	0.14	$	0.51
-Diluted	$	0.08	$	0.03	$	0.09	$	0.33
Weighted Average Shares Outstanding								
-Basic		25,285,902		25,930,537		25,013,117		21,907,429
-Diluted		39,135,314		47,457,524		38,324,011		45,365,361

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18. OPERATING SEGMENTS

The Company individually tracks the performance of its three operating subsidiaries: Wuhan Blower, Wuhan Generating Equipment, and Wuhan Xingelin Equipment. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating Equipment is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Wuhan Xingelin Equipment is in the business of design, production, and sale of blower silencers, connectors, and other general spare parts for blowers and electrical equipment. Below is a presentation of the Company's results of operations for the nine months ended September 30, 2009 and 2008 and financial position at September 30, 2009 and December 31, 2008 for the Company's operating subsidiaries. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

The amounts carried in the column for the Company, UFG and adjustments reflect the corporate expenses of the Company and its wholly owned subsidiary, Universe Faith Group Limited, which has no operations and only serves to hold the Company's operating subsidiaries. These corporate expenses include the costs associated with being a U.S. public company, including professional fees and fees related to corporate compliance. The majority of the costs are directly a result of the Company being a U.S. public company. The Company believes that these costs are not costs which are directly attributable to the operations of our operating segments and thus any allocation of these costs would be discretionary and may misrepresent the performance of our operating segments.

Results of Operations For the nine months ended September 30, 2009	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Company, UFG, Adjustments	Total
Sales	$ 32,272,712	$ 27,370,131	$ 306,501	$ -	$ 59,949,344
Cost of Sales	23,652,193	21,342,999	217,940	-	45,213,132
Gross Profit	8,620,519	6,027,132	88,561	-	14,736,212
Operating Expenses	4,503,343	635,582	404,770	813,949	6,357,644
Other Income (Expenses)	(1,367,255)	(508,399)	(122,345)	(1,154,467)	(3,152,466)
Earnings before Tax	2,749,921	4,883,151	(438,554)	(1,968,416)	5,226,102
Tax	509,316	576,550	-	-	1,085,866
Net Income	$ 2,240,605	$ 4,306,601	$ (438,554)	$ (1,968,416)	$ 4,140,236

Results of Operations For the nine months ended September 30, 2008	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Company, UFG, Adjustments	Total
Sales	$ 44,235,650	$ 46,346,041	$ -	$ -	$ 90,581,691
Cost of Sales	30,299,630	32,632,500	-	-	62,932,130
Gross Profit	13,936,020	13,713,541	-	-	27,649,561
Operating Expenses	4,905,937	2,720,031	-	1,753,210	9,379,177

Other Income (Expenses)	(1,325,421)	(704,416)	-	(1,348,028	(3,377,865)
Earnings before Tax	7,704,662	10,289,094	-	(3,101,238	14,892,519
Tax	-	-	-	-	-
Net Income	$ 7,704,662	$ 10,289,094	$ -	$ (1,277,587)	$ 14,892,519

Financial Position At September 30, 2009	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Company, UFG, Adjustments	Total
Current Assets	71,402,394	57,834,851	1,688,583	(32,799,537)	98,126,291
Non Current Assets	48,257,708	24,065,286	23,522,595	(31,925,091)	63,920,498
Total Assets	119,660,102	81,900,137	25,211,178	(64,724,628)	162,046,789
Current Liabilities	42,545,736	45,794,866	1,199,718	(28,819,140)	60,721,180
Non Current Liabilities	-	2,925,002	-	-	2,925,002
Total Liabilities	42,545,736	48,719,868	1,199,718	(28,819,140)	63,646,182
Net Assets	77,114,366	33,180,269	24,011,460	(35,905,488)	98,400,607
Total Liabilities & Net Assets	119,660,102	81,900,137	25,211,178	(64,724,628)	162,046,789

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Financial Position At December 31, 2008	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Company, UFG, Adjustments	Total
Current Assets	$ 64,326,040	$ 45,962,779	$ 1,293,482	$ (22,821,873)	$ 88,760,428
Non Current Assets	47,991,237	26,603,732	23,564,745	(31,847,772)	66,311,941
Total Assets	$ 112,317,277	$ 72,566,511	$ 24,858,227	$ (54,669,645)	$ 155,072,369
Current Liabilities	$ 37,626,456	$ 42,306,895	$ 467,114	$ (20,376,495)	$ 60,023,970
Total Liabilities	37,626,456	43,765,854	467,114	(20,376,495)	61,482,930
Net Assets	74,690,771	28,800,657	24,391,113	(34,293,150)	93,589,439
Total Liabilities & Net Assets	$ 112,317,277	$ 72,566,511	$ 24,858,227	$ (54,669,645)	$ 155,072,369

19. STOCK COMPENSATION EXPENSE

On November 30, 2007, the Company’s Board of Directors adopted the Wuhan General Group (China), Inc. 2007 Stock Option Plan (the “Plan”). The Plan provides that the maximum number of shares of the Company’s common stock that may be issued under the Plan is 3,000,000 shares. The Company’s employees, directors, and service providers are eligible to participate in the Plan.

For the nine months ended September 30, 2009, the Company recorded $0 of stock compensation expense. No options were issued for the nine month ended September 30, 2009. All previously issued options have fully vested, and as such no additional expense was recorded.

The range of the exercise prices of all the stock options outstanding at September 30, 2009 is shown in the following table:

Price Range	Number of Shares
$0 - $9.99	80,000 shares
$10.00 - $19.99	0 shares
$20.00 - $29.99	0 shares

Wuhan General Group (China), Inc.
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The Company typically uses the Black-Scholes Model to value the options granted. The following shows the weighted average fair value of the grants and the assumptions that were employed in the model for grants in previous periods.

Weighted-average fair value of grants:	$ 0.0329
Risk-free interest rate:	3.97%
Expected volatility:	20.00%
Expected life in months:	104.50

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Board of Directors and Stockholders
Wuhan General Group (China), Inc.

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated balance sheets of Wuhan General Group (China), Inc. (the “Company”) as of September 30, 2009 and December 31, 2008, and the related statements of income, stockholders’ equity, and cash flows for the three-month and nine-month periods ended September 30, 2009 and 2008. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

/s/ Samuel H. Wong & Co., LLP

South San Francisco, California
October 24, 2009

Samuel H. Wong & Co., LLP
Certified Public Accountants

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

The information contained in this report includes some statements that are not purely historical fact and that are "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, ability to collect on our accounts receivable, completion of our turbine manufacturing facility on our main Wuhan campus and workshop and related facilities of Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. , the development of our new industrial parts and machinery equipment business and growth of our businesses. The words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "project "should," and similar expressions, or the negatives of such terms, identify forward-looking statements.

The forward-looking statements contained in this report are based on our current expectations and beliefs concerning future developments. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results to be materially different from those expressed or implied by these forward-looking statements, including the following:

- vulnerability of our business to general economic downturn;
- our ability to obtain financing on favorable terms;
- our ability to comply with the covenants and other terms of our loan agreements with Standard Chartered Bank (China) Limited, Guangzhou Branch;
- establishing our new business segment relating to industrial parts and machinery equipment;
- operating in the PRC generally and the potential for changes in the laws of the PRC that affect our operations including tax law;
- remediating material weaknesses in our internal control over financial reporting;
- our failure to meet or timely meet contractual performance standards and schedules;
- our dependence on the steel and iron markets;
- exposure to product liability and defect claims;
- our ability to obtain all necessary government certifications and/or licenses to conduct our business;
- the cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and
- the other factors referenced in this report.

These risks and uncertainties, along with others, are also described in the Risk Factors section in Part II, Item 1A of this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Overview

Wuhan General Group (China), Inc. (the "Company") is a holding company whose primary business operations are conducted through our wholly owned subsidiary, Universe Faith Group, Ltd. ("UFG"), which has no operations of its own and only serves to hold our Chinese operating subsidiaries, Wuhan Blower Co., Ltd. ("Wuhan Blower"), Wuhan Generating Equipment Co., Ltd. ("Wuhan Generating") and Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. ("Wuhan Xingelin"). Wuhan Blower is a manufacturer of industrial blowers that are principally components of steam-driven electrical power generation plants. Wuhan Generating manufactures industrial steam and water turbines, which also are principally used in electrical power generation plants. Wuhan Xingelin manufactures silencers, connectors and other general parts for industrial blowers and electrical equipment, and it produces general machinery equipment. Wuhan Blower, Wuhan General and Wuhan Xingelin conduct all of their operations in the People's Republic of China, which we refer to in this report as PRC or China. Our corporate structure is as follows:

The information and data contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results and financial condition for the three and nine month periods ended September 30, 2009 and 2008.

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Sales. Sales decreased $9.2 million, or 27.2%, to $24.7 million for the three months ended September 30, 2009 from $34.0 million for the same period in 2008. The decrease in sales was primarily due to a delay in the equipment replacement cycle within China's steel manufacturing companies which resulted in fewer sales in 2009 and capital expenditure restrictions on our power plant customers due to the global economic crisis.

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Cost of Sales. Our cost of sales decreased $6.1 million, or 25.4%, to $17.9 million for the three months ended September 30, 2009 from $23.9 million during the same period in 2008. This decrease was due to the significant decrease in sales of $3.4 million due to lower demand from steel companies and a decrease in sales of $2.6 million in our turbine business.

Gross Profit. Our gross profit decreased $3.2 million, or 31.5%, to $6.9 million for the three months ended September 30, 2009 from $10.0 million for the same period in 2008. Gross profit as a percentage of sales was 27.8% for the three months ended September 30, 2009 compared to 29.5% during the same period in 2008. The decline in gross profit is primarily driven by the decrease in sale price of our turbine products, which decreased about 3% due to increased competition.

Selling Expenses. Our selling expenses for the three months ended September 30, 2009 decreased approximately $75,000, or 9.0%, to approximately $760,000 from approximately $835,000 for the same period in 2008. As a percentage of sales, selling expenses were 3.1% for the three months ended September 30, 2009 compared to 2.5% for the same period in 2008. This increase as a percentage of sales was primarily attributable to the lower economies of scale as a result of the significant decrease in sales.

General and Administrative Expenses. Our general and administrative expenses decreased approximately $649,000, or 30.7%, to $1.5 million for the three months ended September 30, 2009 from approximately $2.1 million for the same period in 2008. As a percentage of sales, general and administrative expenses were 5.9% for the three months ended September 30, 2009 compared to 6.2% for the same period in 2008. This decrease as a percentage of sales was primarily attributable to more aggressive measures implemented to control costs.

Warranty Expense. Our warranty expense increased to approximately $179,000 for the three months ended September 30, 2009 from approximately $90,000 for the same period in 2008. This increase was primarily due to increased repair costs associated with the warranty for our blower products. As a percentage of sales, warranty expense was 0.7% for the three months ended September 30, 2009 compared to 0.3% for the same period in 2008.

Operating Income. Our operating income decreased $2.5 million, or 36.1%, to $4.5 million for the three months ended September 30, 2009 from $7.0 million for the same period in 2008. As a percentage of sales, operating income was 18.1% for the three months ended September 30, 2009 compared to 20.6% for the same period in 2008. This decrease as a percentage of sales was primarily attributable to the lower economies of scale as a result of the significant decrease in sales and the reasons mentioned above.

Interest Income. Our interest income was approximately $289,000 for the three months ended September 30, 2009, which is consistent with that for the same period in 2008.

Other Income (Expenses). Our other income increased to approximately $118,000 for the three months ended September 30, 2009 from approximately $(1,375,000) for the same period in 2008.

Interest Expense. Our interest expense was approximately $1.3 million for the three months ended September 30, 2009, which is consistent with that for the same period in 2008. As a percentage of sales, interest expense was 5.2% for the three months ended September 30, 2009 and 3.7% for the same period in 2008.

Income Taxes. The Company’s income tax liability was approximately $586,000 for the three months ended September 30, 2009 compared to $0 for the same period in 2008. This increase resulted from the expiration of the Company’s PRC tax holiday on December 31, 2008.

Net Income. Net income decreased $1.6 million, or 35.1%, to $3.0 million during the three months ended September 30, 2009 from $4.6 million during the same period in 2008, as a result of the factors described above.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Sales. Sales decreased $30.6 million, or 33.8%, to $59.9 million for the nine months ended September 30, 2009 from $90.6 million for the same period in 2008. Total sales for the nine months ended September 30, 2009 consisted of $32.3 million from our blower business, $27.4 million from our turbine business and approximately $307,000 from our industrial parts and equipment manufacturing business. The decrease in sales was primarily due to a delay in the equipment replacement cycle within China’s steel manufacturing companies which resulted in fewer sales in 2009 and capital expenditure restrictions on our power plant customers due to the global economic crisis.

Cost of Sales. Our cost of sales decreased $17.7 million, or 28.2%, to $45.2 million for the nine months ended September 30, 2009 from $62.9 million during the same period in 2008. Total cost of sales for the nine months ended September 30, 2009 consisted of $23.7 million from our blower business, $21.3 million from our turbine business and approximately $218,000 from our industrial parts and equipment manufacturing business. This decrease was due to the significant decrease in sales of $6.6 million due to lower demand from steel companies and a decrease in sales of $11.3 million in our turbine business.

Gross Profit. Our gross profit decreased $12.9 million, or 46.7%, to $14.7 million for the nine months ended September 30, 2009 from $27.6 million for the same period in 2008. Gross profit as a percentage of sales was 24.6% for the nine months ended September 30, 2009 compared to 30.5% during the same period in 2008. Our gross profit for the nine months ended September 30, 2009 consisted of $8.6 million from our blower business, $6.0 million from our turbine business and approximately $89,000 from our industrial parts and equipment manufacturing business. The decline in gross profit is primarily driven by the decreased sales price of our turbine products, which decreased about 7.6% due to increased competition, and the sales price of our blower products, which decreased approximately 4.8% due to low demand from steel and power companies.

Selling Expenses. Our selling expenses for the nine months ended September 30, 2009 decreased approximately $650,000, or 30.5%, to approximately $1.5 million for the nine months ended September 30, 2009 from approximately $2.1 million for the same period in 2008. As a percentage of sales, selling expenses were 2.5% for the nine months ended September 30, 2009 which is consistent with that for the same period in 2008.

General and Administrative Expenses. Our general and administrative expenses decreased approximately $2.2 million, or 33.4%, to $4.4 million for the nine months ended September 30, 2009 from approximately $6.6 million for the same period in 2008. This decrease reflected lower costs associated with decreased sales activities, including approximately $830,000 attributable to lower administrative costs from our turbine business, approximately $250,000 attributable to lower administrative costs from our blower business and approximately $330,000 attributable to decreased, consulting and legal expenses related to capital market activities. As a percentage of sales, general and administrative expenses were 7.3% for the nine months ended September 30, 2009, which is consistent with that for the same period in 2008.

Warranty Expense. Our warranty expense decreased to approximately $482,000 for the nine months ended September 30, 2009 from approximately $647,000 for the same period in 2008. This decrease was primarily due to decreased repair costs associated with the warranty for our blower products. As a percentage of sales, warranty expense was 0.8% for the nine months ended September 30, 2009 compared to 0.7% for the same period in 2008.

Operating Income. Our operating income decreased $9.9 million, or 54.1%, to $8.4 million for the nine months ended September 30, 2009 from $18.3 million for the same period in 2008. As a percentage of sales, operating income was 14.0% for the nine months ended September 30, 2009 compared to 20.2% for the same period in 2008. This decrease as a percentage of sales was primarily attributable to the lower economies of scale as a result of the significant decrease in sales and the reasons mentioned above.

Interest Income. Our interest income decreased to approximately $494,000 for the nine months ended September 30, 2009 from approximately $637,000 for the same period in 2008. This decrease was due to a decrease in bank deposit interest rates and decreased average bank deposit balance.

Other Income (Expenses). Our other income increased to approximately income of $80,000 for the nine months ended September 30, 2009 from approximately $(1.5) million for the same period in 2008.

Interest Expense. Our interest expense was approximately $2.6 million for the nine months ended September 30, 2009, which was consistent with that for the same period in 2008.

Income Taxes. The Company's income tax liability was approximately $1.1 million for the nine months ended September 30, 2009 compared to $0 for the same period in 2008. This increase resulted from the expiration of the Company's PRC tax holiday on December 31, 2008.

Net Income. Net income decreased $10.8 million, or 72.2%, to $4.1 million during the nine months ended September 30, 2009 from $14.9 million during the same period in 2008, as a result of the factors described above. In addition, there was $1.2 million stock penalty for late listing on NASDAQ during the nine months ended September 30, 2009 that also contributed to the decrease in net income.

Liquidity and Capital Resources

Our primary capital needs have been to fund the working capital requirements necessitated by the expansion of our manufacturing facilities and the development of our new industrial parts and machinery equipment business. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of September 30, 2009, we had cash and cash equivalents of $8.4 million, including restricted cash of $7.5 million.

As discussed above, for the nine months ended September 30, 2009, our sales decreased 33.8% compared to the same period in 2008. This decrease in sales was primarily due to a delay in the equipment replacement cycle within China's steel manufacturing companies which resulted in fewer sales and capital expenditure restrictions on our power plant customers due to the global economic crisis. For many of the same reasons, we also have experienced significant delays in receiving payments from our customers. As discussed in more detail below, the number of days sales were outstanding increased 112 days at September 30, 2009, compared to September 30, 2008. The combination of these factors resulted in our income from operations being insufficient to meet our working capital needs. At the same time, banks tightened their lending policies as a result of the turmoil in the credit markets. This required us to use bridge loans to finance our working capital needs during this period.

On November 11, 2009, we closed a new loan facility with Standard Chartered Bank (China) Limited, Guangzhou Branch; this loan facility provides up to RMB 303,100,000 (approximately $44.4 million) in senior secured debt financing. As described in more detail below, once we fulfill certain conditions required to receive funding under the loan facility, we will use the proceeds to repay our existing bank loans and notes and fund our ongoing construction projects. This should allow us to use our operating income to fund our working capital needs.

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, we receive 60% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 15% due upon signing and 45% due upon delivery. We generally receive an additional 30% of the purchase price when the equipment is installed and runs without problem for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. We generally receive the final 10% at 18 months following the installation. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China. Nonetheless, we are seeking more aggressive payment schedules on new sales contracts in order to improve our liquidity position.

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At September 30, 2009, we had $47.8 million in accounts receivable, compared to $41.5 million at December 31, 2008. In order to manage this increase in accounts receivable, we have employed additional resources in collecting on outstanding accounts receivable and have aligned more closely sales commissions with the collection on sales. The accounts receivable balance increased by $6.4 million, with a corresponding increase in days sales outstanding of 112 days, at September 30, 2009 compared to September 30, 2008. This increase resulted primarily from delayed payments from our major customers. Our major customers, particularly state-owned steel companies and power generating companies, delayed their payments to the Company due to the economic slow down and the resulting restrictions on their cash. This resulted in a significant increase in days sales outstanding for our accounts receivable. In addition, most of our major customers demanded lower prepayments and progress billings and longer payment terms. All of these negatively affected the Company’s operating cash flow.

At September 30, 2009, we had $1.3 million in other receivables, which is a decrease of approximately $0.4 million compared to the balance at December 31, 2008.

We also had advances to suppliers of $15.9 million at September 30, 2009, which decreased by $4.4 million compared to the balance at December 31, 2008. The decrease was mainly due to significant payments made at the end of 2008 to suppliers for electrical power generators and raw materials. We typically need to place a deposit in advance with our suppliers on a portion of the purchase price, and for some suppliers, we must maintain a deposit for future orders. We generally ask for a certain amount of deposit from customers before we begin a new project.

We had inventory turnover of 2.9 times and 5.3 times for the nine months ended September 30, 2009 and September 30, 2008, respectively. Inventory increased $3.9 million in raw materials, $10.5 million in work in progress and $49,795 in finished goods for the nine months ended September 30, 2009. The raw materials increase resulted from the Company’s effort to increase desired stock levels to take advantage of decreased steel price during 2009 and to increase production level.

We provide for bad debts principally based upon the aging of accounts receivable, in addition to collectability of specific customer accounts, our history of bad debts and the general condition of the industry. Pursuant to the Company’s accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding accounts receivables. Bad debts are charged against the allowance when outstanding accounts receivables have been determined to be uncollectible. Due to the difficulty in assessing future trends and the global economic downturn, we could be required to increase our provisions for doubtful accounts. As our accounts receivable age and become uncollectible, our cash flow and results of operations are negatively impacted.

Net cash used in operating activities for the three months ended September 30, 2009 was approximately $5.6 million, as compared to approximately $1.4 million provided in the same period in 2008. This change was primarily due to a decrease in net operating income coupled with an increase in receivables with a relatively long collection period and increased advances to suppliers, but partially offset by an increase in customer deposits.

Net cash used in investing activities for the three months ended September 30, 2009 was approximately $1.8 million, as compared to approximately $7.2 million used in the same period in 2008. This change was mainly a result of a decrease in restricted cash.

Net cash provided by financing activities for the three months ended September 30, 2009 was approximately $6.1 million, as compared to approximately $14.8 million provided in the same period in 2008. This change was primarily due to the proceeds raised from the exercise of warrants by investors in 2008.

We intend to expend a significant amount of capital to complete our facilities and the installation of equipment and to make deposits for performance bonds for new projects that we have obtained. In light of the Company’s new credit facility with Standard Chartered Bank, which is discussed below, the Company believes that its currently available working capital, combined with cash from operations and bank financing, should be adequate to sustain operations at current levels through at least the next 12 months. For our long-term strategic growth, the Company will continue to rely upon debt and capital markets for any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary objectives of the Company’s capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense.

Bank Loans Generally

As of September 30, 2009, we had banking facilities in the form of bank loans and loan facilities from other non-bank entities totaling approximately $34.2 million (based on an exchange rate of 6.8376 RMB per 1 U.S. dollar). Information regarding these loans is set forth below in US $.

Short–term Loans Subsidiary	Type	Name of Creditor	Due Date	Interest Rate Per Annum		At September 30, 2009
Wuhan Blower	Bank Loans	Wuhan Kangfuman Consulting Company	On Demand	-		292,500
Wuhan Blower	Bank Loans	Wuhan Jiangan Huachuang Loan Company	On Demand	19.20%		2,660,729
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%		731,251
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%		877,501
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/13/2010	5.84%		2,925,003
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/28/2010	5.84%		3,656,254
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/6/2010	5.84%		731,251
Wuhan Blower	Bank Loans	Bank of China, Ltd.	3/12/2010	5.40%		804,375
Subtotal					$	12,678,864
Wuhan Blower	Notes Payable	Wuhan Pinghu Materials Company	12/2/2009	—		548,438
Wuhan Blower	Notes Payable	Wuhan Zhongxingshimao Materials Company	12/4/2009	—		305,827
Wuhan Blower	Notes Payable	Bank of Communications	12/10/2009	—		4,095,004
Wuhan Blower	Notes Payable	Wuhan Pinghu Materials Company	1/24/2010	—		892,126
Subtotal					$	5,841,395
Wuhan Generating	Notes Payable	Wuhan Fuxintai Trade Company	1/22/2010	—		5,850,006
Wuhan Generating	Notes Payable	Bank of Communications	12/16/2009	—		6,873,757
Subtotal					$	12,723,763
Total					$	31,244,022
Long-term Loans						
Wuhan Generating	Long Term Loan	Bank of Communications	12/23/2010	5.67%		1,462,501
Wuhan Generating	Long Term Loan	Bank of Communications	1/15/2011	5.40%		1,462,501
Total					$	2,925,002

We plan to either repay this debt as it matures or refinance this debt with other debt. Our subsidiary, Wuhan Blower, recently financed up to RMB 303,100,000 (approximately $44.4 million) in the form of a bank loan to be used to repay our current bank debt, purchase equipment for Wuhan Generating and complete the capital expenditure investments of Wuhan Xingelin. Since funding will be available to Wuhan Generating to complete its construction projects, the Company can use the funds generated from operations for working capital.

Loan Facility with Standard Chartered Bank

On November 11, 2009, Wuhan Blower, Wuhan Generating and Wuhan Xingelin (collectively, the “Borrowers”) entered into a Loan Agreement with Standard Chartered Bank (China) Limited, Guangzhou Branch (the “Standard Chartered”). The Loan Agreement provides for a loan facility totaling RMB 303,100,000 (approximately $44.4 million) in senior secured debt financing consisting of a term loan facility for up to RMB 211,600,000 (approximately $31.0 million) (the “Tranche A Loan”) and a term loan facility for up to RMB 91,500,000 (approximately $13.4 million) (the “Tranche B Loan,” together with the Tranche A Loan, the “Loans”). The Tranche A Loan will be used primarily to repay the existing bank debts of Wuhan Blower and Wuhan Generating and to purchase equipment for Wuhan Generating. The Tranche B Loan will be used primarily to facilitate the capital expenditure investments of Wuhan Xingelin.

The obligations under the Loan Agreement are guaranteed by the Company, Universe Faith Group Limited and Mr. Xu Jie personally. Each of the guarantors also is a party to the Loan Agreement.

Both the Tranche A Loan and the Tranche B Loan will mature on the third anniversary of the date of the first drawdown under the Tranche A Loan, subject to an extension of one year and a half at Standard Chartered’s sole discretion. Commencing fifteen months after the first drawdown under the Tranche A Loan, the Borrowers will be required to pay eight successive quarterly installments on the Tranche A Loan. With respect to the Tranche B Loan, the Borrowers will be required to make eight installment payments commencing fifteen months after the first drawdown under the Tranche A Loan.

The Tranche A Loan will bear interest at a fixed rate to be determined at the time of the drawdown. The interest rate of the Tranche B Loan will be either a fixed rate or floating rate plus margin, to be determined at the time of the first drawdown. The Borrowers also must pay to Standard Chartered, who also serves as the facility agent, an annual commitment fee of 3%, which is to be paid monthly while the Loans are available.

Subject to certain conditions, the Borrowers may voluntarily prepay the Loans with a prepayment fee. The Borrowers are subject to a mandatory prepayment of the Loans if the Borrowers obtain any new debt financing, dispose of certain assets, distribute dividends or change control, among other circumstances.

The Loan Agreement contains covenants, which include, among others: limitation on the incurrence of additional indebtedness; limitation on guarantees, liens, investments, sale of assets, mergers, change of control and capital expenditures; and maintenance of specified financial ratios. So long as any amount is outstanding under the Loans, (1) the Borrowers must maintain a Loan to Value Ratio of 75% through June 2010 and 65% thereafter and (2) Wuhan Blower must maintain (i) a ratio of total debt to EBITDA of less than certain amounts that range from 3.0 to 3.5 during 2009 and 2010 and 2.5 in 2011 and (ii) total revenues must exceed certain amounts that range between RMB 600,000,000 (approximately $87.9 million) to RMB 750,000,000 (approximately $109.9 million) from 2009 through 2011.

The Tranche B Loan is subject to additional conditions, including the completion of syndication of at least RMB 80,000,000 (approximately $11.7 million) under the Tranche A Loan and the Borrowers maintaining a ratio of total debt to consolidated EBITDA of less than 2.9 and total annual revenues of at least RMB 600,000,000 (approximately $87.9 million).

As a condition to the Loans, the Borrowers granted to Standard Chartered a security interest in substantially all of their assets, including, among other things, mortgages over land use rights and ownership of buildings, factories and equipment, pledge of shares, existing and future account receivables that exceed certain amounts and registered trademarks. In addition, each of the Borrowers agreed to provide financial and other information within certain time frames, including audited financial statements within 90 calendar days after the end of each fiscal year and unaudited financial statements within 15 calendar days after the end of each fiscal quarter. Each of the Borrowers and guarantors also agreed, among other things, that there will be no material changes in the senior officers or board of directors without the prior written consent of Standard Chartered; all related party transactions will be at arm's-length; and, subject to certain conditions, an additional capital contribution of RMB 74,086,590 (approximately $10.9 million) will be made by December 31, 2009 to Wuhan Blower or Wuhan Blower will provide written evidence that it will reduce its registered capital amount to its current paid in amount with the appropriate government officials.

The Borrowers must meet certain conditions prior to the funding of the Loans by Standard Chartered. These include, among other things, confirmation that, after repaying the existing debt of all Borrowers with funds from Tranche A, there will be no other debt or corporate guarantees remaining other than those identified in the Loan Agreement. To the extent that the Borrowers fail to meet all the required conditions precedent to drawdown under the Loan Agreement, Standard Chartered is not obligated to fund the Loans.

The failure to satisfy the covenants under the Loan Agreement or the occurrence of other specified events that constitute an event of default could result in the acceleration of the repayment obligations of the Borrowers. The events of default include, among others: the failure to make payments under the Loan Agreement; insolvency or bankruptcy proceedings involving any of the Borrowers; cross defaults to other indebtedness by the Borrowers; material litigation or a change in control of the Borrowers; and subject to certain limitations, the failure to perform or observe covenants or other obligations under the Loan Agreement or related documents by the Borrowers or guarantors.

The Borrowers are subject to a penalty interest rate of 1% on all amounts due and unpaid if the Borrowers fail to pay any sum payable when due. In addition, the Borrowers are subject to a penalty interest rate of the People's Bank of China rate, plus a mark up of 50% to 100%, on all amounts used for purposes that do not comply with the stated purposes under the Loan Agreement.

The Loan Agreement is governed by the laws of the PRC. All financial covenants under the Loan Agreement are based on generally accepted accounting principles in the PRC. All amounts in the Loan Agreement are denominated in RMB, which is the currency used in the PRC. The dollar translations used in this summary of the Loan Agreement are based on the exchange rate of RMB 6.83 for each 1.00 U.S. Dollar, on November 12, 2009.

In connection with the Loan Agreement, the Borrowers entered into an agreement with Standard Chartered Corporate Advisory Co. (Beijing), Ltd. (the "Advisor") for certain advisory and management services. Under this agreement, the Borrowers agreed to pay to the Advisor a management fee of 1% of the net gross revenues of the Borrowers in connection with the Tranche B Loan. This management fee remains valid and payable until one year after the maturity date of the Loans. In addition, the Borrowers have agreed to pay to the Advisor an advisory fee of 8% of the Loans.

The foregoing summary of the Loan Agreement is qualified in its entirety by reference to the Loan Agreement, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 16, 2009.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

Method of Accounting

The Company maintains its general ledger and journals with the accrual method of accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

Consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating and Wuhan Xingelin. Inter-company transactions, such as sales, cost of sales, due to/due from balances, investment in subsidiaries, and subsidiaries' capitalization have been eliminated.

Economic and Political Risks

The Company's operations are conducted in the People's Republic of China (the "PRC"). Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions include, but are not limited to, revenue recognition under the percentage of completion method, the valuation of accounts receivable, inventories, deferred income taxes and the estimation of useful lives of property, plant, and equipment. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Company maintains bank accounts in the People's Republic of China and in the United States of America.

Accounts Receivable-Trade

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding trade receivables. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding trade receivables have been determined to be uncollectible.

Inventory

Inventory, consisting of raw materials, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method with 5% salvage value. Estimated useful lives of the property, plant and equipment are as follows:

Buildings	30 years
Machinery and Equipment	10 years
Furniture and Fixtures	5 years
Motor Vehicles	5 years

Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight-line method. Estimated useful lives of intangibles are as follows:

Technical Licenses	10 years
Trademark	20 years

Annually the Company reviews the intangible assets for impairment, in accordance with FASB 142 Impairment of Long-Lived Assets. The Company considers whether the estimated future benefits of the technical licenses and trademarks will be fully realized over the course of their estimated useful lives. If the technical licenses become obsolete, or trademarks are unsuccessfully defended against infringement by third-parties, the Company will consider future cash flows and relevant factors to quantify the level of impairment and record impairment adjustments accordingly. The Company has not yet recognized any impairment upon the intangible assets.

Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over the useful life of 50 years for the Wuhan Blower and Wuhan Generating campus, and of 30 years for the Wuhan Xingelin campus.

Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of September 30, 2009 and December 31, 2008, there were no significant impairments of its long-lived assets.

Revenue Recognition

Revenue from the sale of blower products, generating equipment and other general equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. The Company believes that the installation is not essential to the functionality of the equipment. This is because the equipment is tested at the Company’s facilities before it is shipped and consequently, the equipment is completed and functional at the point that it is delivered to the customer. Additionally, since the Company’s products generally are a smaller component of a large project, after delivery, the Company has no control over how the customer will use the delivered products and sometimes other companies are used to install the equipment purchased from us. Finally, our customers do not have a contractual right to return products to the

Company, and we historically have experienced virtually no returns.

Revenue from product sales is recognized when the goods are delivered and title has passed. Product sales revenue represents the invoiced value of goods, net of the value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese VAT at a rate of 17 percent of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

Revenue from "Turn-Key" construction projects is recognized using the percentage-of-completion method of accounting and therefore takes into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of AICPA Statement of Position 81-1, "Accounting for Performance of Construction - Type and Certain Production - Type Contracts."

Revenue from the rendering of maintenance services is recognized when such services are provided.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Cost of Sales

The Company's cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs.

Selling Expenses

Selling expenses are comprised of outbound freight, salary for the sales force, client entertainment, commissions, depreciation, advertising, and travel and lodging expenses.

General & Administrative Expenses

General and administrative expenses include outside consulting services, research & development, executive compensation, quality control, and general overhead such as the finance department, administrative staff, and depreciation and amortization expense.

Advertising

The Company expenses all advertising costs as incurred.

Research and Development

The Company expenses all research and development costs as incurred.

Foreign Currency Translation

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

Exchange Rates	9/30/2009	12/31/2008	9/30/2008
Period end RMB: US$ exchange rate	6.8376	6.8542	6.8551
Average period RMB: US$ exchange rate	6.8425	6.9622	6.9989

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US$ at the rates used in translation.

Income Taxes

The Company uses the accrual method of accounting to determine and report its taxable income and tax credits for the year in which they are available. The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People's Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Effective January 1, 2008, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises that had already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized. The Company's operating subsidiaries expect to be subject to a 15% income tax rate starting January 1, 2009.

The Company is subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of:

		Taxable Income		
Rate		Over	But Not Over	Of Amount Over
15	%	0	50,000	0
25	%	50,000	75,000	50,000
34	%	75,000	100,000	75,000
39	%	100,000	335,000	100,000
34	%	335,000	10,000,000	335,000
35	%	10,000,000	15,000,000	10,000,000
38	%	15,000,000	18,333,333	15,000,000
35	%	18,333,333	-	-

Based on the consolidated net income for the quarter ended September 30, 2009, the Company does not believe that it has any U.S. income tax liability.

Statutory Reserve

In accordance with PRC laws, statutory reserve refers to the appropriation from net income, to the account "statutory reserve" to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise's PRC registered capital.

Other Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's current component of other comprehensive income is the foreign currency translation adjustment.

Warranty Expense Accruals

The Company reviews its actual warranty expenses incurred, relative to warranty expense accruals on an annual basis. Based on the actual warranty expenses incurred, the Company evaluates the reasonableness of its estimates and may adjust the assumptions applied in making the warranty expense accruals. If the estimated warranty expenses versus the actual expense are appreciably different, the Company will adjust the warranty expenses accordingly. When developing warranty expense accruals, the Company considers improvements in its production processes, in-house technical expertise, and operational experiences.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock.

Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” ("SFAS 165"). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

In June 2009, FASB issued FASB Statement No. 166, Accounting for Transfers for Financial Assets and FASB Statement No. 167, a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities.

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures.

Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance.

On July 1, 2009, FASB issued FASB Statement No. 168, The "FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles. The ASC has become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities and provides that all such guidance carries an equal level of authority. The ASC is not intended to change or alter existing GAAP. The ASC is effective for interim and annual periods ending after September 15, 2009.

The Company is currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on its consolidated results of operations and financial condition.

Off-Balance Sheet Arrangements

We do not have any off-balance arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This item is not required for a smaller reporting company.

Item 4T. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2009. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based upon, and as of the date of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. We believe that the deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting, which is described below.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of preventing and detecting misstatements on a timely basis. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures.

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this evaluation, management used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, we concluded that we had material weaknesses in our internal control over financial reporting as of December 31, 2008. The following is a description of each deficiency or weakness with respect to our internal control over financial reporting identified in connection with the management evaluation and the remediation initiatives that we have implemented or intend to implement in the near future.

1) The Company must provide regular training to its employees regarding the Company's Code of Business Conduct and Ethics and other relevant policies.

Remediation Initiative

The Company has an established Code of Business Conduct and Ethics and it will implement regular training sessions with its staff to explain the Company's policies. Further, the Company will require all employees to sign a confirmation to acknowledge their understanding of the Company's policies.

2) The current accounting staff lacks sufficient depth, skill and experience with U.S. GAAP reporting. Further, the Company must establish an internal audit department that reports to the Audit Committee.

Remediation Initiative

We are seeking additional accountants experienced in several key areas of accounting, including persons with experience in U.S. GAAP and SEC financial reporting requirements. We also plan to provide regular training to our accounting staff regarding U.S. GAAP reconciliation and disclosures in financial reports. We also are in the process of establishing an internal audit department for the Company.

3) The Company lacks a formal information technology department to manage the Company's information technology operations and risk assessment framework.

Remediation Initiative

We plan to establish a formal information technology department with clearly defined functions. We also plan to establish an appropriate risk assessment standard with assistance from outside consultants.

Because material weaknesses exist, management concluded that the Company's internal control over financial reporting as of December 31, 2008 was not effective. In order to resolve these weaknesses, we have engaged a consultant to provide us guidance on the improvement of our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Other than the remediation measures described above, during the quarter ended September 30, 2009, there was no change in our internal control over financial reporting that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business.

Item 1A. Risk Factors.

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.

The risk factors presented below are all of the ones that we currently consider material. However, they are not the only ones facing our Company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risk Factors Related to Our Business

Our steam and water turbine business is a critical component of our growth and overall business strategy, yet our turbine facility is not fully operational and we have limited experience manufacturing turbines.

In late 2005, Wuhan Blower reached an understanding with many of the former management members of Wuhan Turbine Works, a business owned by China Chang Jiang Energy Corporation, whereby it would establish a new business utilizing their management and technology to manufacture small to mid-size steam and water turbines. Since that time, we have begun production of turbines in our existing manufacturing facilities and in shared facilities. In March 2006, we broke ground on a new turbine manufacturing facility. The construction of the turbine manufacturing facility has been completed and approximately 75% of the equipment has been installed. As we receive additional turbine orders, we will purchase and install the remainder of the customized equipment in this new facility. We have already begun production of turbines from this facility and will expand production once the installation is complete. The manufacture of turbines has become a critical component of our business. However, we have only three years experience manufacturing turbines.

Because we have had a limited operating history in the turbine manufacturing business, it is difficult to forecast accurately our future revenues and expenses related to this business. Additionally, our turbine operations will continue to be subject to risks inherent in the establishment of a new business, including, among other things, efficiently deploying our capital, developing our product and service offerings, developing and implementing our marketing campaigns and strategies and developing awareness and acceptance of our products. Our ability to generate future revenues from these operations will be dependent on a number of factors, many of which are beyond our control. To be successful, we must, among other things, complete the installation of the customized equipment, integrate the former managers of Wuhan Turbine Works and establish market recognition in this business. This will require us to expend significant resources, including capital and management time and there can be no assurance that this aspect of our business will be successful.

Wuhan Blower was privatized in 2004, so it has a limited history of operations as a non-state-owned enterprise. We may not realize the benefits of privatization as quickly as we anticipate or at the level that we expect.

Wuhan Blower was originally founded in 1958 as the Wuhan Blower Company. In 2004, Mr. Xu Jie purchased the company and implemented steps to transform it from a traditional Chinese state-owned enterprise into a modern, efficient company. Thus, we only have a limited history of operations as a non-state-owned enterprise. We cannot assure you that we will be successful in achieving the benefits we expect from our privatization, such as increased management flexibility in implementing measures to improve our cost structure, the efficient operation of our business and the expansion into new businesses in a timely manner or at all. Factors that may cause the actual benefits we may derive from privatization to deviate from our expectations include:

- inexperience of management in transforming and then operating a non-state-owned enterprise;
- unanticipated adverse developments in our attempt to achieve efficient management of our workforce and operation of our business;
- changes in regulations affecting us following our privatization; and
- the speed with which we are able to implement more efficient management systems, and the resulting levels of cost savings.

Wuhan Xingelin is not fully operational and we have little experience manufacturing and marketing parts for blowers and other industrial equipment.

We expect Wuhan Xingelin to produce industrial parts mainly for Wuhan Blower and Wuhan Generating. We also plan to market industrial parts and machinery equipment to third parties. Because we have no experience in the parts and machinery equipment manufacturing business, we may not be successful. In addition, it is difficult to forecast accurately our future revenues and expenses related to this business. We also have not completed construction of a workshop and other buildings to be used by Wuhan Xingelin.

Our operations will continue to be subject to risks inherent in the establishment of a new business, including, among other things, efficiently deploying our capital, developing our product and service offerings, developing and implementing our marketing campaigns and strategies and developing awareness and acceptance of our products. Our ability to generate future revenues from these operations will be dependent on a number of factors, many of which are beyond our control. To be successful, we must, among other things, complete our remaining workshop, integrate our existing management and establish market recognition in this business. This will require us to expend significant resources, including capital and management time and there can be no assurance that this aspect of our business will be successful.

We have not paid the remaining balance in connection with the Shu Kong Acquisition and we may require additional financing to meet this obligation and to complete construction of various buildings for Wuhan Xingelin.

We owe a balance of approximately $6.0 million in connection with the Shu Kong Acquisition. In addition, we must pay an additional $1.8 million to complete construction on the acquired facilities. We may require financing to meet these obligations. There is no guarantee that we will obtain such financing, and, if we are not able to meet our financial commitment in a timely manner, Wuhan Xingelin may cease to be operational.

Our management has identified material weaknesses in our internal control over financial reporting and disclosure controls and procedures that, if not properly remediated, could result in material misstatements in our financial statements in future periods.

In conjunction with the preparation of this Form 10-Q, our management carried out an evaluation of the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2009. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. For more detailed information regarding our disclosure controls and procedures, see Part I, Item 4T Controls and Procedures.

The deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting. In conjunction with the preparation of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, the Company’s management carried out an evaluation of the effectiveness of the design and operation of the Company’s internal control over financial reporting as of December 31, 2008. Based upon this evaluation, the Company’s CEO and CFO concluded that the Company’s internal control over financial reporting contained significant deficiencies and material weaknesses and therefore was not effective.

If we are unable to improve our financial and management controls and hire additional accounting and finance staff experienced in addressing complex accounting matters applicable to public reporting companies, in each case in a timely and effective manner, our ability to comply with the accounting and financial reporting requirements and other rules that apply to public reporting companies would be impaired.

If the remedial policies and procedures we implement are insufficient to address the identified material weaknesses, or if additional significant deficiencies or material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected. Any such failure also could adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting.

We must implement additional and expensive procedures and controls in order to grow our business and organization and to satisfy reporting requirements, which will increase our costs and require additional management resources.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the SEC, including the requirements that we maintain disclosure controls and procedures and adequate internal control over financial reporting. We also are required to comply with marketplace rules to maintain our NASDAQ listing. Compliance with the Sarbanes-Oxley Act and other SEC and NASDAQ requirements will increase our costs and require additional management resources. We have begun upgrading our procedures and controls and will need to continue to implement additional procedures and controls as we grow our business and organization and to satisfy new reporting requirements. If we are unable to complete the required assessment as to the adequacy of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or if we fail to maintain internal control over financial reporting, our ability to produce timely, accurate and reliable periodic financial statements could be impaired.

Our substantial indebtedness could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations.

We have incurred substantial debt to finance our growth. As of September 30, 2009, we had approximately $34.1 million of outstanding bank loans and notes. This indebtedness could have important consequences to us, such as:

- limiting our ability to obtain additional financing to fund growth, working capital, capital expenditures, debt service requirements or other cash requirements;
- limiting our operational flexibility due to the covenants contained in our debt agreements;
- limiting our ability to invest operating cash flow in our business due to debt service requirements;
- limiting our ability to compete with companies that are not as highly leveraged and that may be better positioned to withstand economic downturns; and
- increasing our vulnerability to fluctuations in market interest rates.

Our ability to meet our expenses and debt service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in customer preferences, the success of product and marketing innovation and pressure from competitors. If we do not have enough money to pay our debt service obligations, we may be required to raise additional equity capital, sell assets or borrow more money. We may not be able, at any given time, to raise additional equity capital, sell assets or borrow more money on terms acceptable to us or at all. In the past, we have refinanced our debt prior to maturity. However, there can be no assurance that we will be able to refinance our debt on favorable terms, if at all, in the future.

Restrictions in our loan agreement limit our operating and strategic flexibility.

Our current loan agreement with Standard Chartered Bank (China) Limited, Guangzhou Branch contains covenants and events of default that, among other things, require us to satisfy financial tests and maintain financial ratios. Among other things, these covenants and events of default limit our ability to:

- incur additional debt;
- create or permit to exist certain liens;
- pay dividends on capital stock;
- engage in specified asset sales;
- enter into transactions with affiliates;
- engage in mergers and acquisitions; and
- make capital expenditures.

Events beyond our control could affect our ability to comply with these covenants, including the required financial ratios. Failure to comply with any of these debt covenants would result in a default under this loan agreement. A default would permit the lender to accelerate the maturity of the debt under this agreement, foreclose upon our assets securing the debt and terminate any commitments to lend. Under these circumstances, we may not have sufficient funds or other resources to satisfy our debt and other obligations. In addition, the limitations imposed by the loan agreement on our ability to incur additional debt and to take other actions may significantly impair our ability to obtain other financing and may prevent us from taking advantage of attractive business opportunities.

Our President and Chief Executive Officer personally guarantees certain of our financing, the loss of which would adversely affect our business prospects, results of operations and financial condition.

Our President and Chief Executive Officer, Mr. Xu Jie, personally guarantees certain loan facilities that have become an important financing source to our businesses due to recent cash constraints, which we expect to continue in the near term. We have no agreement with Mr. Xu regarding his providing such personal guarantees. Therefore, Mr. Xu could discontinue his guarantee of our financing at any time. Furthermore, if Mr. Xu ceases to serve as our President and Chief Executive Officer, or in some similar capacity, by reason of his death, resignation, termination or for any other reason, we would likely immediately lose our access to this financing. If this financing were not available to us and we were unable to replace it with another source of financing or cash on hand, in the near term we would have to significantly reduce our spending, which would have a material adverse effect on our business prospects, financial condition and results of operations.

Turmoil in the credit markets and the financial services industry could negatively impact the Company’s business, results of operations, financial condition or liquidity.

The credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions, an unprecedented level of intervention from the United States federal government, the PRC government and other foreign governments and tighter availability of credit on more restrictive terms at higher cost of capital. While the ultimate outcome of these events cannot be predicted, they could have a negative impact on our liquidity and financial condition if our ability to borrow money to finance operations were to be impaired. In addition, the economic crisis could also adversely impact our customers’ ability to purchase or pay for products from us or our suppliers’ ability to provide us with product, either of which could negatively impact our business and results of operations.

Default in payment by one or more customers that have large account receivable balances could adversely impact our results of operations and financial condition.

A significant portion of our working capital consists of accounts receivable from customers. As of September 30, 2009, we had an aggregate amount of $47.8 million in accounts receivables. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable or unwilling to make timely payments, our business, results of operation, financial condition or liquidity could be adversely affected. The recent economic downturn has resulted in longer payment cycles, increased collection costs and defaults in excess of management’s expectations.

We rely on third-party relationships to augment our research and development capabilities. If we fail to establish new, or maintain existing, collaborative arrangements, or if our partners do not perform, we may be unable to research and develop new products and make technological advancements.

Although we maintain our own research and development facilities, we also rely on collaborative arrangements with third-parties to research and develop new products and make technological advancements. For example, we have relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of the China Science Academy that allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics. We would be harmed by the loss of such relationships. In addition, we license technological information, and receive related technical assistance, from Mitsubishi Heavy Industries, Ltd. in connection with the majority of axial flow fans that we produce. If we fail to retain our rights under the license agreement, we would not be able to produce axial flow fans using the technical information provided by Mitsubishi. Additional collaborations may be necessary in the future. If we fail to enter into additional collaborative arrangements or fail to maintain our existing collaborative arrangements, we may not be able to compete successfully with other companies that achieve technological advancements.

Our dependence on collaborative arrangements with third-parties subjects us to a number of risks, including, among others:

- collaborative arrangements may not be on terms favorable to us;
- disagreements with partners may result in delays in research and development, termination of our collaboration agreements or time consuming and expensive legal action;
- we cannot control the amount and timing of resources that our partners devote to our research and development and our partners may not allocate sufficient funds or resources to our projects, or may not perform their obligations as expected;
- partners may choose to research and develop, independently or with other companies, alternative products or technological advancements, including products or advancements that would compete with ours;
- agreements with partners may expire or be terminated without renewal, or partners may breach collaboration agreements with us;
- business combinations or significant changes in a partner's business strategy might adversely affect that partner's willingness or ability to complete its obligations to us; and
- the terms and conditions of the relevant agreements may no longer be suitable.

The occurrence of any of these or similar events could adversely affect our research and development capabilities.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability insurance coverage for our operations. If we incur any losses, we will have to bear those losses without any assistance. As a result, we may not have sufficient capital to cover material damage to, or the loss of, our manufacturing facilities due to fire, severe weather, flood or other causes, and such damage or loss would have a material adverse effect on our financial condition, business and prospects.

Our results could be adversely impacted by product quality and performance.

We manufacture and install products based on specific requirements of each of our customers. We believe that future orders of our products or services will depend on our ability to maintain the performance, reliability and quality standards required by our customers. If our products or services have performance, reliability or quality problems, we may experience delays in the collection of accounts receivables, higher manufacturing or installation costs, additional warranty and service expense, and reduced, cancelled or discontinued orders. Additionally, performance, reliability or quality claims from our customers, with or without merit, could result in costly and time-consuming litigation that could require significant time and attention of management and involve significant monetary damages.

Price fluctuations and supply constraints in the steel and iron markets could reduce our profit margins or prevent us from meeting delivery schedules to our customers.

Our business is dependent on the prices and supply of steel and iron, which are the principal raw materials used in our products. The steel and iron industries are highly cyclical in nature, and steel and iron prices have been volatile in recent years and may remain volatile in the future. Steel and iron prices are influenced by numerous factors beyond our control, including general economic conditions, competition, labor costs, production costs, import duties and other trade restrictions. In 2007 and early 2008, there were unusually rapid and significant increases in steel and iron prices and severe shortages in the steel and iron industries due in part to increased demand from China’s expanding economy and high energy prices. These increases were followed in the second half of 2008 by significant decreases. We do not have any long-term contracts for the purchase of steel and iron and normally do not maintain inventories of steel and iron in excess of our current production requirements. We can give you no assurance that steel and iron will remain available to us at competitive prices or that prices will not continue to be volatile. If the available supply of steel and iron declines, we could experience price increases that we are not able to pass on to our customers, a deterioration of service from our suppliers or interruptions or delays that may cause us not to meet delivery schedules to our customers. Any of these problems could adversely affect our results of operations and financial condition.

Expansion of our business may strain our management and operational infrastructure and impede our ability to meet any increased demand for our products. In addition, we may need additional funding to support our growth, and this funding may not be available to us.

Our business plan is to grow significantly our operations by meeting the anticipated growth in demand for existing products, and by introducing new products. Our planned growth includes the continued development of our turbine manufacturing business and the development of our industrial parts and machinery equipment business. Growth in our businesses may place a significant strain on our personnel, management, financial systems and other resources. Our business growth also presents numerous risks and challenges, including:

- our ability successfully and rapidly to expand sales to potential customers in response to potentially increasing demand;
- the costs associated with such growth, which are difficult to quantify, but could be significant; and
- rapid technological change.

To accommodate this growth and compete effectively, we may need to obtain additional funding to improve and expand our manufacturing facilities, information systems, procedures and controls and to expand, train, motivate and manage existing and additional employees. Funding may not be available in a sufficient amount or on favorable terms, if at all. If we are not able to manage these activities and implement these strategies successfully to expand to meet any increased demand, our operating results could suffer.

We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including in particular Xu Jie, our President, Chief Executive Officer and Chairman of the Board. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, marketing and sales and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the manufacturing, technical, marketing and sales aspects of our business, any part of which could be harmed by turnover in the future.

We are a holding company and rely on the receipt of dividends from our operating subsidiaries. We may encounter limitations on the ability of our subsidiaries to pay dividends to us.

As a holding company, we have no direct business operations other than the ownership of our operating subsidiaries. Our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions relating to doing business in China as discussed below. If future dividends are paid in Renminbi, fluctuations in the exchange rate for the conversion of Renminbi into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

The ability of our Chinese operating subsidiaries to pay dividends may be restricted due to their corporate structure.

All of our operations are conducted in China and substantially all of our revenues are generated in China. Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. This calculation may differ from the one performed under generally accepted accounting principles in the United States, or U.S. GAAP. As a result, we may not receive sufficient distributions from our Chinese subsidiaries to enable us to make dividend distributions to our stockholders in the future. The limitations on distributions of the profits of our Chinese operating subsidiaries could negatively affect our financial condition and assets, even if our U.S. GAAP financial statements indicate that our operations have been profitable.

Currently, our subsidiaries in China are the only significant sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations, we will be unable to pay any dividends.

We enjoy certain preferential tax concessions, and the loss of these preferential tax concessions would cause our tax liabilities to increase and our profitability to decline.

On January 1, 2008, the Law of the People's Republic of China on Enterprise Income Tax, or the EIT Law, became effective. In accordance with the EIT Law, the corporate income tax rate was set at 25% for all enterprises. However, certain industries and projects, such as enterprises with foreign investors, may enjoy favorable tax treatment pursuant to the EIT Law and its implementing rules. We expect that our operating subsidiaries will be subject to a 15% income tax in the PRC for 2009.

There can be no assurance that we will continue to qualify for this preferential tax treatment or that Chinese tax regulations will remain the same. If we do not continue to receive our reduced income tax rate, our tax liabilities will increase and our net income will decrease accordingly.

Under the EIT Law, we may be classified as a "resident enterprise" for PRC tax purposes, which may subject us to PRC enterprise income tax for any dividends we receive from our Chinese subsidiaries and to PRC income tax withholding for any dividends we pay to our non-PRC stockholders.

Under the EIT Law, an enterprise established outside of China whose "de facto management bodies" are located in China is considered a "resident enterprise" and is subject to the 25% enterprise income tax rate on its worldwide income. The EIT Law and its implementing rules are relatively new, and currently, no official interpretation or application of this new "resident enterprise" classification is available. Therefore, it is unclear how tax authorities will determine the tax residency of enterprises established outside of China.

All of our management is currently based in China. If the PRC tax authorities determine that our U.S. holding company is a "resident enterprise" for PRC enterprise income tax purposes, we may be subject to an enterprise income tax rate of 25% on our worldwide taxable income. The "resident enterprise" classification also could subject us to a 10% withholding tax on any dividends we pay to our non-PRC stockholders if the relevant PRC authorities determine that such income is PRC-sourced income. In addition to the uncertainties regarding the interpretation and application of the new "resident enterprise" classification, the EIT Law may change in the future, possibly with retroactive effect. If we are classified as a "resident enterprise" and we incur these tax liabilities, our net income will decrease accordingly.

Our quarterly and annual revenues and operating results are volatile and difficult to predict.

Our quarterly and annual revenues and operating results may vary depending on a number of factors, including, but not limited to: fluctuating customer demand, delay or timing of shipments, construction delays, changes in product mix or market acceptance of new products; manufacturing or operational difficulties that may arise due to quality control, capacity utilization of our production equipment or staffing requirements; and competition, including the introduction of new products by competitors, adoption of competitive technologies by our customers and competitive pressures on prices of our products and services. Our failure to meet quarterly or annual revenue and operating result expectations would likely adversely affect the market price of our common stock.

Risks Related to the Market for Our Stock and Our Capital Structure

Shares eligible for future sale may adversely affect the market price of our common stock.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of restricted common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144. Any substantial sale of our common stock may have a material adverse effect on the market price of our common stock.

The issuance of shares of common stock upon the exercise or conversion of outstanding securities may cause significant dilution to our stockholders and may have an adverse impact on the market price of our common stock.

As of November 16, 2009, there were 24,861,524 shares of our common stock issuable upon conversion of outstanding Series A Preferred Stock and Series B Preferred Stock and exercise of outstanding warrants and options. The issuance of our shares upon the exercise or conversion of these securities will increase the number of shares of our common stock outstanding, which could depress the market price of our common stock.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the stock price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

We may not be able to achieve the benefits we expect to result from the share exchange.

We may not realize the benefits that we hoped to derive as a result of the February 2007 share exchange, which include:

- access to the capital markets of the United States;
- the increased market liquidity expected to result from exchanging stock in a private company for securities of a public company that are publicly traded;
- the ability to use securities to make acquisition of assets or businesses;
- increased visibility in the financial community;
- enhanced access to the capital markets;
- improved transparency of operations; and
- perceived credibility and enhanced corporate image of being a publicly traded company.

In addition, the attention and effort devoted to achieving the benefits of the share exchange and attending to the obligations of being a public company, such as reporting requirements and securities regulations, could significantly divert management's attention from operational issues, which could materially and adversely affect our operating results or stock price in the future.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management team.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the public markets and public reporting. Our management team, which has limited experience operating a U.S. public company, will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Standards for compliance with Section 404 of the Sarbanes-Oxley Act are relatively new for our Company, and if we fail to comply in a timely manner, investor confidence could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act require an annual assessment of a public company's internal control over financial reporting by management and an audit of the public company's internal control over financial reporting by such company's independent registered public accountants. We completed annual assessments of our internal controls in connection with the preparation of our Form 10-KSB for the fiscal year ended December 31, 2007 and our Form 10-K for the fiscal year ended December 31, 2008. These assessments identified material weaknesses in our internal control over financial reporting. The audit requirement will first apply to our Form 10-K for the fiscal year ended December 31, 2010. Since this audit process will be new for our company, we may encounter problems or delays in completing the implementation of any requested improvements and receiving the audit report from our independent registered public accountants. Since we previously have not been able to assess our internal control over financial reporting as effective, our independent registered public accountants may not be able to provide an unqualified report for the fiscal year ended December 31, 2010. This may negatively impact investor confidence and our share price.

Our principal stockholder has the ability to control our operations, including the election of our directors.

Fame Good International Limited, a holding company controlled by our President and Chief Executive Officer, Xu Jie, is the owner of approximately 70.6% of our outstanding voting securities (excluding shares of our Series A and Series B Preferred Stock which, until converted into common stock, only vote as a class on certain matters affecting such preferred stock). As a result, Mr. Xu possesses significant influence, giving him the ability, among other things, to elect each member of our Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control also may have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer. Additionally, Mr. Xu's interests may differ from the interests of our other stockholders.

Certain provisions of our Articles of Incorporation may make it more difficult for a third party to effect a change in control.

Our Articles of Incorporation authorize the Board of Directors to issue up to 50,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, which in turn could prevent the stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

Risks Related to Doing Business in China

Changes in China’s political or economic situation could harm us and our operating results.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Changes or events that could possibly occur, among others, include:

- level of government involvement in the economy;
- control of foreign exchange;
- methods of allocating resources;
- balance of payments position;
- international trade restrictions;
- international conflict; and
- devaluation of the Renminbi, which is the Chinese currency.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

Our business is subject to the uncertain legal environment in China.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally followed. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign investment enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign investment enterprises to hold licenses and permits such as requisite business licenses.

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

In the last 20 years, despite a process of devolution of regulatory control to provincial and local levels and resulting economic autonomy and private economic activities, the Chinese central 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, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate 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 to adjust economic policies or even 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 or joint ventures.

Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem such as new strains of avian influenza or the H1N1 virus (swine flu) in China could have a negative effect on our operations.

Our operations may be impacted by a number of health-related factors, including the following:

- quarantines or closures of some of our manufacturing facilities or offices which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could damage our operations.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The majority of our revenues are settled in Renminbi, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign investment enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition and the value of our shares.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the Company and the price of our common stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our capital stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including the U.S. dollar, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. dollar has remained stable and has appreciated against the U.S. dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. Since then, the Renminbi has appreciated by more than 20% against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollar.

Inflation in the PRC could negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past 15 years, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies.

In accordance with the notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents has been confirmed by a Foreign Investment Enterprise Certificate prior to the promulgation of the notice, the PRC residents must each submit a registration form to the local provincial SAFE branch with respect to their establishment of an offshore company and also must file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transaction or use of assets in China to guarantee offshore obligations. The notice also provides that failure to comply with the registration procedures set forth therein may result in restrictions on our PRC resident stockholders and subsidiaries. Pending the promulgation of detailed implementation rules, the relevant government authorities are reluctant to commence processing any registration or application for approval required under the SAFE notices.

In addition, on August 8, 2006, the Ministry of Commerce (“MOFCOM”), joined by the State-Owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and SAFE, amended and released the Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises, new foreign-investment rules which took effect September 8, 2006, superseding much, but not all, of the guidance in the prior SAFE circulars. These rules significantly revised China’s regulatory framework governing onshore-offshore restructurings and how foreign investors can acquire domestic enterprises. These rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

These rules may significantly affect the means by which onshore-offshore restructurings are undertaken in China in connection with offshore private equity and venture capital financings, mergers and acquisitions. It is expected that such transactional activity in China in the near future will require significant case-by-case guidance from MOFCOM and other government authorities as appropriate. It is anticipated that application of the rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our PRC and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the rules, we may need to expend significant time and resources to maintain compliance.

It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of the SAFE notices and rules.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Chinese companies and some other foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in the PRC, and our executive officers and employees have not been subject to the United States Foreign Corrupt Practices Act prior to the completion of the share exchange in February 2007. We can make no assurance that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

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

PRC companies historically have not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. As a result, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet standards required of U.S. public companies. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act. 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. Any such deficiencies, weaknesses or lack of compliance could have a material adverse effect on our business.

Our business may be adversely affected as a result of China's entry into the World Trade Organization ("WTO") because the preferential tax treatments available to us may be discontinued and foreign manufacturers may compete with us in the PRC.

The PRC became a member of the WTO on December 11, 2001. The current tax benefits that we enjoy may be discontinued as a result of the PRC's membership in the WTO. If this happened, our profitability would be adversely affected. In addition, we may face additional competition from foreign manufacturers if they set up their production facilities in the PRC or form Sino-foreign joint ventures with our competitors in the PRC. In the event that we fail to maintain our competitiveness against these competitors, our profitability may be adversely affected.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original legal actions in China based upon U.S. laws, including the federal securities laws or other foreign laws, against us or our management.

All of our current operations are conducted in China. Moreover, the majority of our officers and directors are currently nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process upon these persons within the United States or elsewhere outside China. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or our officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original legal actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Filed herewith

SIGNATURES

In accordance with the requirements 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.

Date: November 15, 2009

WUHAN GENERAL GROUP (CHINA), INC.

By:	/s/ Xu Jie	
	Name:	Xu Jie
	Title:	President and Chief Executive Officer (principal executive officer and duly authorized officer)
By:	/s/ Haiming Liu	
	Name:	Haiming Liu
	Title:	Chief Financial Officer and Treasurer (principal financial officer)

Exhibit Index

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