

WUHAN GENERAL GROUP (CHINA), INC  
Form 10-Q  
August 21, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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	84-1092589
(State or other jurisdiction of incorporation or	(I.R.S. Employer Identification No.)

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organization)

Canglongdao Science Park of Wuhan East Lake Hi-Tech  
Development Zone  
Wuhan, Hubei, People's Republic of China 430200  
(Address of principal executive offices) (Zip Code)

86-27-5970-0069  
(Registrant's  
telephone number,  
including area  
code)

N/A  
(Former  
name,  
former  
address  
and  
former  
fiscal  
year, if  
changed  
since  
last  
report)

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  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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

Yes  No

As of August 16, 2012, the registrant had a total of 32,505,000 shares of common stock outstanding.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Wuhan General Group (China), Inc.

Consolidated Financial Statements

**June 30, 2012 and December 31, 2011**

**(Stated in US Dollars)**

1

Wuhan General Group (China), Inc.

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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 June 30, 2012 and December 31, 2011, and the related statements of income, stockholders’ equity, and cash flows for the three months and six months ended June 30, 2012 and 2011. 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.

San Mateo, California WWC, P.C.  
August 10, 2012      Certified Public Accountants

**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of June 30, 2012 and December 31, 2011****(Stated in US Dollars)**

	Note	At June 30, 2012	At December 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash	2(e)	\$65,627,716	\$57,522,050
Restricted Cash	3	25,732,554	13,953,294
Notes Receivable	4	42,724	-
Accounts Receivable	2(f),5	61,366,535	56,567,722
Other Receivable		24,065,227	18,487,992
Related Party Receivable		-	7,041,613
Inventory	2(g),6	22,880,650	13,300,792
Advances to Suppliers		26,521,456	25,184,728
Advances to Employees	7	66,820	30,158
Prepaid Expenses		795,591	7,041
Prepaid Taxes		43,325	41,210
Deferred Tax Asset		2,663,465	1,238,831
Current assets held for sale	2(bb),21	5,493,464	2,223,395
Total Current Assets		235,299,527	195,598,826
Non-Current Assets			
Property, Plant & Equipment, <i>net</i>	2(h),8	29,762,437	29,591,719
Land Use Rights, <i>net</i>	2(j),9	1,966,604	1,976,326
Construction in Progress	10	15,271,052	15,031,490
Deposits		6,574,399	5,555,926
Intangible Assets, <i>net</i>	2(i),11	128,890	145,041
Long-term assets held for sale	2(bb),21	24,709,545	24,672,213
Total Assets		\$313,712,454	\$272,571,541
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
Liabilities			
Current Liabilities			
Bank Loans & Notes	12	\$126,436,381	\$113,966,333
Accounts Payable		10,213,537	5,478,580
Taxes Payable		13,465,144	10,841,233
Other Payable		8,044,438	5,035,021
Related Party Payable		1,406,865	-
Dividend Payable		1,816,828	1,454,257
Accrued Liabilities	13	3,872,832	3,593,025
Customer Deposits		8,402,220	7,177,771



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Current liabilities associated with assets held for sale	2(bb), 21	19,162,224	1,401,330
Total Current Liabilities		192,820,469	148,947,550
Long Term Liabilities			
Bank Loans and Notes	12	5,854,707	6,048,989
Total Liabilities		\$198,675,176	\$154,996,539

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

**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of June 30, 2012 and December 31, 2011****(Stated in US Dollars)**

	Note	At June 30, 2012	At December 31, 2011
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 June 30, 2012 and December 31, 2011	14	\$624	\$624
Additional Paid in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid in Capital - Warrants		63,171	63,171
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,547
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at June 30, 2012 and December 31, 2011	14	635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized; 32,505,000 and 28,327,607 Shares Issued & Outstanding at June 30, 2012 and December 31, 2011, respectively	14	3,251	3,251
Additional Paid in Capital		42,090,417	42,090,417
Statutory Reserve	2(u),15	4,563,592	4,563,592
Retained Earnings		22,620,524	21,369,395
Accumulated Other Comprehensive Income	2(v)	14,492,252	18,281,105
Total Stockholders' Equity		115,037,278	117,575,002
Total Liabilities & Stockholders' Equity		\$313,712,454	\$272,571,541

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

**Wuhan General Group (China), Inc.****Consolidated Statements of Income****For the three and six months ended June 30, 2012 and 2011****(Stated in US Dollars)**

	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Sales	2(l)	\$ 22,393,227	\$ 32,255,783	\$ 50,683,633	\$ 59,643,903
Cost of Sales	2(m)	18,577,326	22,741,366	40,841,044	43,549,985
Gross Profit		3,815,901	9,514,417	9,842,589	16,093,918
Operating Expenses					
Selling	2(n)	380,756	267,446	759,911	700,143
General & Administrative	2(p)	1,984,422	2,897,838	3,670,476	5,074,326
Warranty	2(w),14	(1,010 )	21,674	227,209	195,705
Total Operating Expenses		2,364,168	3,186,958	4,657,596	5,970,174
Operating Income		1,451,733	6,327,459	5,184,993	10,123,744
Other Income (Expenses)					
Other Income		374,401	87,776	807,411	138,188
Interest Income		24,008	80,404	61,618	89,166
Other Expenses		(3,247 )	(2,398 )	(3,247 )	(49,605 )
Interest Expense		(1,464,711 )	(2,954,482 )	(3,317,845 )	(4,224,378 )
Expense for warrant recapitalization		-	-	-	(3,455,260 )
Total Other Income (Loss) & Expenses		(1,069,549 )	(2,788,700 )	(2,452,063 )	(7,501,889 )
Earnings from Continuing Operations before Taxes		382,184	3,538,759	2,732,930	2,621,855
Income Taxes	2(t), 16	132,901	456,593	753,425	844,005
<b>Income from Continuing Operations</b>		<b>249,283</b>	<b>3,082,166</b>	<b>1,979,505</b>	<b>1,777,850</b>
Income (Loss) from Discontinued Operations, net of taxes		(188,688 )	(90,893 )	(365,806 )	(198,370 )
<b>Net Income</b>		<b>\$ 60,595</b>	<b>\$ 2,991,273</b>	<b>\$ 1,613,699</b>	<b>\$ 1,579,480</b>
Preferred Dividends Declared		(181,286 )	(181,284 )	(362,570 )	(360,577 )
Income Available to Common Stockholders		\$ (120,691 )	\$ 2,809,989	\$ 1,251,129	\$ 1,218,903
Earnings Per Share	17				
Basic - Net Income		\$ (0.00 )	\$ 0.09	\$ 0.04	\$ 0.04
- Income from Continuing Operations		(0.00 )	0.09	0.05	0.05
- Loss from Discontinued Operations		(0.01 )	(0.00 )	(0.01 )	(0.01 )

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Diluted - Net Income	(0.00	)	0.06	0.04	0.04	
- Income from Continuing Operations	0.01		0.06	0.05	0.05	
- Loss from Discontinued Operations	\$(0.00	)	\$(0.00	)	\$(0.01	)
Weighted Average Shares Outstanding						
Basic	32,505,000		32,505,000	32,505,000	32,040,845	
Diluted	45,100,531		45,100,531	38,859,078	38,394,923	

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Comprehensive Income				
Net Income	\$ 60,595	\$ 2,991,273	\$ 1,613,699	\$ 1,579,480
Other Comprehensive Income				
Foreign Currency Translation Adjustment	(4,969,645 )	972,071	(3,788,853 )	2,663,435
Total Comprehensive Income	\$(4,949,050 )	\$ 3,963,344	\$(2,175,154 )	\$ 4,242,915

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

**Wuhan General Group (China), Inc.**

**Consolidated Statements of Stockholders' Equity**

**For the periods ended June 30, 2012 and December 31, 2011**

**(Stated in US Dollars)**

	Series A Convertible Preferred Stock Shares Out- standing	Series A Preferred Stock Additional Paid in Capital	Series A 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 Preferred Stock Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital	Series B Beneficial Conversion Warrants Additional Paid in Capital
Balance, January 1, 2012	6,241,453	624	8,170,415	63,171	6,371,547	6,354,078	635	12,637,158	-	4,023,692	32,500	
Stock Option Compensation												
Recapitalization of Warrants												
Expense related to recapitalization of warrants												
Net Income												
Preferred Dividends Declared												
Appropriations of Retained Earnings												
Foreign Currency Translation Adjustment												
Balance, June 30, 2012	6,241,453	624	8,170,415	63,171	6,371,547	6,354,078	635	12,637,158	-	4,023,692	32,500	

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

**Wuhan General Group (China), Inc.****Consolidated Statements of Stockholders' Equity****For the periods ended June 30, 2012 and December 31, 2011 (Stated in US Dollars)**

	Series A Convertible Preferred Stock Shares Out- standing	Amount	Series A Preferred Stock Additional Paid in Capital	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	Ben Con Feat Add Paid Cap
Balance, January 1, 2011	6,241,453	624	8,170,415	1,554,635	6,371,547	6,354,078	635	12,637,158	1,244,366	4,0
Stock Option Compensation	-	-	-	-	-	-	-	-	-	-
Recapitalization of Warrants	-	-	-	(1,491,464)	-	-	-	-	(1,244,366)	-
Expense related to recapitalization of warrants	-	-	-	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	-	-	-	-	-
Preferred Dividends Declared	-	-	-	-	-	-	-	-	-	-
Appropriations of Retained Earnings	-	-	-	-	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2011	6,241,453	624	8,170,415	63,171	6,371,547	6,354,078	635	12,637,158	-	4,0

**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 six months ended June 30, 2012 and 2011****(Stated in US Dollars)**

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 20,645,054	\$ 18,968,445	\$ 48,281,190	\$ 45,750,713
Cash Paid to Suppliers & Employees	(13,080,446 )	(24,136,911 )	(29,306,180 )	(43,327,856 )
Interest Received	24,072	80,404	61,682	89,166
Interest Paid	(1,583,185 )	(2,954,483 )	(3,436,319 )	(4,224,378 )
Taxes Paid	(1,662,109 )	(685,878 )	(2,608,599 )	(3,794,166 )
Miscellaneous Receipts	512,586	87,777	945,598	138,188
Cash Provided by operating activities – continuing operations	4,855,972	(8,640,646 )	13,937,372	(5,368,333 )
Cash Provided by operating activities – discontinued operations	-	(105,412 )	219,982	(95,289 )
Cash Sourced/(Used) in Operating Activities	4,855,972	(8,746,058 )	14,157,354	(5,463,622 )
<b>Cash Flows from Investing Activities</b>				
Cash Released/(Invested in) Restricted Time Deposits	(16,515,200 )	20,814,390	(16,526,321 )	6,523,568
Purchase of Short Term Investment Fund or Investment Property	-	986,015	-	986,015
Payments for Purchases and Construction of Plant & Equipment	(628,006 )	(3,324,976 )	(1,372,827 )	(4,227,475 )
Payments for Deposits	(972,303 )	(7,712 )	(1,018,454 )	(7,943 )
Cash Used in investing activities – continuing operations	(18,115,509 )	18,467,717	(18,917,602 )	3,274,165
Cash Used in investing activities – discontinued operations	-	58,838	(318,482 )	1,219
Cash Sourced/(Used) in Investing Activities	(18,115,509 )	18,526,555	(19,236,084 )	3,275,384
<b>Cash Flows from Financing Activities</b>				
Proceeds from Bank Loans and Notes	16,801,193	25,598,068	17,022,828	28,138,906
(Repayment of Bank Loans and Notes)	-	-	-	-
Dividends Paid	-	-	-	-
Cash provided by financing activities – continuing operations	16,801,193	25,598,068	17,022,828	28,138,906
Cash provided by financing activities – discontinued operations	-	-	-	-

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Cash Sourced/(Used) in Financing Activities	16,801,193	25,598,068	17,022,828	28,138,906
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – continuing operations	3,541,656	35,425,139	12,042,598	26,044,738
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations	-	(46,574 )	(98,500 )	(94,070 )
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	20,346,540	35,378,565	11,944,098	25,950,668
Effect of Currency Translation – continuing operations	(4,925,056 )	616,407	(3,936,932 )	2,353,949
Effect of Currency Translation – discontinued operations	(27,746 )	1,166	84,220	(1,225 )
	(3,852,712 )	617,573	(3,852,712 )	2,352,724
Cash & Cash Equivalents at Beginning of Period - continuing operations	67,011,116	19,210,341	57,522,050	26,853,200
Cash & Cash Equivalents at Beginning of Period - discontinued operations	34,967	89,502	21,501	139,389
	67,046,083	19,299,843	57,543,551	26,992,589
Cash & Cash Equivalents at End of Period - continuing operations	65,627,716	55,251,887	65,627,716	55,251,887
Cash & Cash Equivalents at End of Period - discontinued operations	7,221	44,094	7,221	44,094
Cash & Cash Equivalents at End of Period	\$65,634,937	\$55,295,981	\$65,634,937	\$55,295,981

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



**Wuhan General Group (China), Inc.****Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities****For the three and six months ended June 30, 2012 and 2011****(Stated in US Dollars)**

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net Income	\$ (95,664 )	\$ 2,991,273	\$ 1,613,699	\$ 1,579,480
Adjustments to Reconcile Net Income to Net Cash Provided by / <Used in> Operating Activities :				
Stock Compensation	-	-	-	4,555
Expense for warrant recapitalization	-	-	-	3,455,260
Amortization	73,274	123,408	179,577	230,786
Depreciation	447,741	876,846	1,153,827	1,629,999
Decrease/(Increase) in Notes Receivable	503,837	286,472	(14,527 )	173,368
Decrease/(Increase) in Accounts Receivable	(372,620 )	(6,188,269 )	(4,784,395 )	(8,364,122 )
Decrease/(Increase) in Other Receivable	(2,232,687 )	(11,354,559 )	(5,662,859 )	(11,411,215 )
Decrease/(Increase) in Related Party Receivable			7,113,376	-
Decrease/(Increase) in Inventory	(5,224,597 )	(2,432,879 )	(8,126,406 )	(5,688,867 )
Decrease/(Increase) in Advances to Suppliers	(2,065,244 )	7,494,248	(1,346,684 )	8,060,595
Decrease/(Increase) in Advances to Employees	2,631	31,567	(36,662 )	25,429
Decrease/(Increase) in Prepaid Expenses	(802,576 )	(1,834,090 )	(792,499 )	(1,831,524 )
Decrease/(Increase) in Prepaid Taxes	5,658	180,385	(7,703 )	(411,719 )
Decrease/(Increase) in Deferred Tax Asset	35,579	(24,371 )	(1,424,633 )	(33,736 )
Increase/(Decrease) in Accounts Payable	3,189,048	(5,878,874 )	4,914,101	(591,511 )
Increase/(Decrease) in Taxes Payable	49,831	1,548,472	2,621,895	(2,084,914 )
Increase/(Decrease) in Other Payable	10,576,651	(737,334 )	15,324,066	1,594,733
Increase/(Decrease) in Related Party Payable	124,643	2,287,549	1,927,908	2,287,549
Increase/(Decrease) in Accrued Liabilities	198,616	(67,424 )	279,808	207,694
Increase/(Decrease) in Customer Deposits	285,592	3,951,522	1,225,465	5,704,538
Total of all adjustments	4,795,377	(11,737,331 )	12,543,655	(7,043,104 )
Net Cash Provided by Operating Activities	\$ 4,855,972	(8,746,058 )	\$ 14,157,354	\$ (5,463,622 )

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



**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**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”), and Wuhan Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”), formerly known as Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. Wuhan Blower is a China-based manufacturer of industrial blowers that principally are components of steam driven electrical power generation plants. Wuhan Generating is a China-based manufacturer of industrial steam and water turbines, also principally for use in electrical power generation plants. Wuhan Sungreen 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. 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.

On December 25, 2008, Wuhan Blower, entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd. (the “Seller”, also known as “Hubei Gongchuang Real Estate Co., Ltd.”) 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 Sungreen. Wuhan Blower currently owns 100% beneficial interest in Wuhan Sungreen. Wuhan Sungreen is incorporated under the laws of the PRC. The purchased assets have been accounted for on Wuhan Sungreen'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 found that the purchase price of the assets was not materially unfair. Zhuhai concluded that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. However, due to the limitation of insufficient resources and the Company's plan to dispose of Wuhan Sungreen, the Company has ceased any further construction of the workshop and buildings. See also Note 8 – Property, Plant and Equipment, and Note 10 – Construction in Progress.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**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 and Wuhan Sungreen. 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, the valuation of accounts receivable and inventories, deferred income taxes, warranty liability 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 U.S. and the PRC.

(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.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**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 ASC 350 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 campus, and of 30 years for the Wuhan Sungreen 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. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of June 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.



**Wuhan General Group (China), Inc.**

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**Notes to Financial Statements**

**(Stated in US Dollars)**

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

(1)

*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 value-added tax at a rate of 17% 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 the 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, client entertainment, commissions, depreciation, and travel and lodging expenses.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

(o) *Advertising expenses*

All advertising costs are expensed as incurred.

(p) *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.

(q) *Research and Development*

The Company expenses all research and development costs as incurred.

(r) *Shipping and Handling*

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

(s) *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	June 30, 2012	December 31, 2011	June 30, 2011
Period end RMB : US\$ exchange rate	6.3197	6.3647	6.46400
Average period RMB : US\$ exchange rate	6.3255	6.4735	6.54818

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.

(t)

*Income Taxes*

The Company uses the accrual method of accounting to determine income taxes for the year. 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 consist 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.

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

Effective January 1, 2009, 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, 2008. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the period ended June 30, 2011, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

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	-	-

*(u)**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. The Company cannot pay dividends out of statutory reserves or paid in capital registered in PRC.

(v)

*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.

(w)

*Warranty Policy*

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change the estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available. See also Note 14 – Warranty Liability.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

(x) *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 18 – Earnings Per Share.

(y) *Financial Instruments*

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

(z) *Retirement Plan*

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(aa) *Recent Accounting Pronouncements*

In January 2011, the FASB issued an Accounting Standard Update (“ASU”) No. 2011-01, “Receivables Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. Under the existing effective date in Update 2010-20, public- entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The amendments in this Update temporarily defer that effective date, enabling public-entity creditors to provide those disclosures after the Board clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the Board proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. This new accounting pronouncement is not expected to have a material impact on the Company’s consolidated financial position or results of the operations.



**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

In June 2011, the FASB issued an Accounting Standard Update (“ASU”) No. 2011-05, “Comprehensive Income (Topic 220). Under the amendments to Topic 220, Comprehensive Income, entities have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This new accounting pronouncement is not expected to have a material impact on the Company’s consolidated financial position or results of the operations.

*(bb) Discontinued Operations*

Certain amounts have been reclassified to present the Company’s Wuhan Sungreen operations as discontinued operations. Unless otherwise indicated, information presented in the notes to the financial statements relates only to the Company’s continuing operations. Information related to discontinued operations is included in Note 22 and in some instances, where appropriate, is included as a separate disclosure within the individual footnotes.

**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**

As of June 30, 2012	Continuing	Discontinued
	Operations	Operations
Notes Receivable	\$ 42,724	\$ -

<u>Less</u> : Allowance for Bad Debts	-	-
	\$ 42,724	\$ -

As of December 31, 2011	Continuing Operations	Discontinued Operations
Notes Receivable	\$ -	\$ 28,196
<u>Less</u> : Allowance for Bad Debts	-	-
	\$ -	\$ -

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 typically mature in the future; therefore, these bank drafts represent different risk and reward characteristics.

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****5. ACCOUNTS RECEIVABLE**

As of June 30, 2012	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	\$64,629,225	\$ 220,632
<u>Less:</u> Allowance for Bad Debt	(3,262,690 )	(11,031 )
	\$61,366,535	\$ 209,601

Allowance for Bad Debts		
Beginning Balance	\$(2,977,248 )	\$ (11,960 )
Allowance Provided	(5,371,689 )	(12,045 )
Reversal	-	-
<u>Less:</u> Bad Debt Written Off	5,086,247	12,974
Ending Balance	\$(3,262,690 )	\$ (11,031 )

As of December 31, 2011	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	\$59,544,970	\$ 235,978
<u>Less:</u> Allowance for Bad Debt	(2,977,248 )	(11,960 )
	\$56,567,722	\$ 224,018

Allowance for Bad Debts		
Beginning Balance	\$(2,604,525 )	\$ (11,513 )
Allowance Provided	(4,474,152 )	(447 )
Reversal	-	-
<u>Less:</u> Bad Debt Written Off	4,101,429	-
Ending Balance	\$(2,977,248 )	\$ (11,960 )

**6. INVENTORY**

As of June 30, 2012	Continuing Operations	Discontinued Operations
---------------------	--------------------------	----------------------------

Raw Materials	\$6,903,805	\$	-
Work in Progress	12,162,665		-
Finished Goods	3,814,180		-
	\$22,880,650	\$	-

As of December 31, 2011	Continuing Operations	Discontinued Operations
Raw Materials	\$9,663,871	\$ 131,081
Work in Progress	1,409,831	420,139
Finished Goods	2,227,090	902,232
	\$13,300,792	\$ 1,453,452

**7.****ADVANCES TO EMPLOYEES**

Advances to Employees of \$66,820 and \$30,158 as of June 30, 2012 and December 31, 2011, 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.

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****8. PROPERTY, PLANT AND EQUIPMENT**

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

As of June 30, 2012	Wuhan	Wuhan	Other	Total	Total
<u>Category of Asset</u>	Blower	Generating	Subsidiaries	Continuing	Discontinued
	Operations	Operations		Operations	Operations
Buildings	14,985,521	9,404,739	—	24,390,260	13,142,431
Machinery & Equipment	2,121,105	13,613,383	—	15,734,488	1,954,386
Furniture & Fixtures	423,715	33,132	1,433	458,280	63,463
Auto	1,263,793	362,011	—	1,625,804	15,624
Other	650,811	—	—	650,811	—
	19,444,945	23,413,265	1,433	42,859,643	15,175,904
<i>Less: Accumulated Depreciation</i>					
Buildings	(3,948,896 )	(721,527 )	—	(4,670,422 )	
Machinery & Equipment	(1,366,935 )	(5,701,072 )	—	(7,068,007 )	(656,280 )
Furniture & Fixtures	(371,867 )	(17,585 )	(351 )	(389,803 )	(11,086 )
Auto	(748,419 )	(162,265 )	—	(910,684 )	(7,562 )
Other	(58,289 )	—	—	(58,289 )	—
	(6,494,406 )	(6,602,449 )	(351 )	(13,097,206 )	(674,928 )
Property, Plant, & Equipment, Net	12,950,539	16,810,816	1,082	29,762,437	14,500,976
As of December 31, 2011	Wuhan	Wuhan	Other	Total	Total
<u>Category of Asset</u>	Blower	Generating	Subsidiaries	Continuing	Discontinued
	Operations	Operations		Operations	Operations
Buildings	14,626,746	9,370,675	-	23,997,421	-
Machinery & Equipment	2,101,219	13,512,971	-	15,614,190	1,829,258
Furniture & Fixtures	415,778	32,698	1,433	449,909	34,837
Auto	1,193,582	359,452	-	1,553,034	15,513
Other	80,181	-	-	80,181	-
	18,417,506	23,275,796	1,433	41,694,735	1,879,608
<i>Less: Accumulated Depreciation</i>					

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Buildings	3,710,590	887,133	-	4,597,723	-
Machinery & Equipment	1,250,561	5,007,564	-	6,258,125	503,206
Furniture & Fixtures	357,712	14,795	215	372,722	6,175
Auto	674,136	148,910	-	823,046	5,911
Other	51,400	-	-	51,400	-
	6,044,399	6,058,402	215	12,103,016	515,292
Property, Plant, & Equipment, Net	12,373,107	17,217,394	1,218	29,591,719	1,364,316

The shared campus of Wuhan Blower and Wuhan Generating consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company's turbine manufacturing workshops provide approximately 401,622 square feet (37,312 square meters) of floor space. The office buildings that house the business operations of Wuhan Generating and Wuhan Sungreen provide an additional 287,650 square feet (26,723 square meters) of floor space.

The Company's original plans for the acquired campus of Wuhan Sungreen included the following buildings:

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

	Square Feet	Square Meters
Workshop 1	136,131	12,647
Dormitories	67,662	6,286
Commercial Shops	5,285	491
Warehouse	102,155	9,491
	311,233	28,915

The local government approved the architectural plans for all of the buildings. Currently Workshop 1, Warehouse, Dormitories, and Commercial Shops have not been built. In 2010, the Company ceased any further construction on the campus of Wuhan Sungreen in anticipation of the disposal of the subsidiary.

**9. LAND USE RIGHTS**

At June 30, 2012	Wuhan	Wuhan	Total	Total
Category of Asset	Blower	Generating	Continuing	Discontinued
Land Use Rights	2,379,472	-	2,379,472	11,359,605
<i>Less:</i> Accumulated Amortization	(412,868 )	-	(412,868 )	(1,168,572 )
Land Use Rights, <i>Net</i>	1,966,604	-	1,966,604	10,191,033

At December 31, 2011	Wuhan	Wuhan	Total	Total
Category of Asset	Blower	Generating	Continuing	Discontinued
Land Use Rights	2,362,648	-	2,362,648	11,279,290
<i>Less:</i> Accumulated Amortization	(386,322 )	-	(386,322 )	(998,406 )
Land Use Rights, <i>Net</i>	1,976,326	-	1,976,326	10,280,884

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 subsidiaries.

The parcel of land purchased in the asset acquisition and now carried on the books of Wuhan Sungreen totals 792,547 square feet (73,630.05 square meters). The land has been used for Wuhan Sungreen's operations. 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 the construction in progress account relate to various projects at the Company's operating subsidiaries. All of the construction projects at Wuhan Blower have been substantially completed.



**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

The assets have been put into use. Accordingly, the assets have been moved to the property, plant, and equipment account. Construction projects at Wuhan Generating include a new workshop, office building and the installation of equipment in the workshop. The workshop was completed in the beginning of 2009. By the end of the second quarter of 2010, all equipment had been fully installed and the workshop was operational. The structure of the office building has been substantially completed; however, the necessary construction of the interior to bring the building into use has been suspended. The Company plans to complete the office building when its operations necessitate and there is sufficient working capital to do so.

The following table details the assets that are accounted for in the Construction-in-Progress account at June 30, 2011 and December 31, 2010:

June 30, <b>2012</b>		Total Continuing Operations	<b>Total</b> Discontinued Operations
Subsidiary	Description		
Wuhan Blower	Dormitory	-	
Wuhan Blower	Testing Facility	-	
Wuhan Blower	Badminton Courts	26,109	
Wuhan Blower	Technological Remodeling	-	
Wuhan Blower	Lighting	-	
Wuhan Blower	Dining Hall	-	
Wuhan Generating	Capitalized Interest	542,342	
Wuhan Generating	Equipment Requiring Installation	7,220,139	
Wuhan Generating	Generating Workshop	6,558,774	
Wuhan Generating	Construction Materials	923,688	
Wuhan Sungreen	Landscaping		-
Wuhan Sungreen	Workshop		-
Wuhan Sungreen	Office Building		-
Wuhan Sungreen	Utility Systems Setup		-
Wuhan Sungreen			1,069
		15,271,052	1,069
December 31, <b>2011</b>		Total Continuing	<b>Total</b> Discontinued

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Subsidiary	Description	Operations	Operations
Wuhan Blower	Dormitory	164,399	-
Wuhan Blower	Testing Facility	945	-
Wuhan Blower	Badminton Courts	25,924	-
Wuhan Blower	Technological Remodeling	448,191	-
Wuhan Blower	Lighting	117,837	-
Wuhan Blower	Dining Hall	13,593	-
Wuhan Blower	Wall	22,990	-
Wuhan Generating	Capitalized Interest	1,424,214	-
Wuhan Generating	Equipment Requiring Installation	6,522,831	-
Wuhan Generating	Generating Workshop	6,290,566	-
Wuhan Sungreen	Landscaping	-	317,366
Wuhan Sungreen	Workshop	-	5,236,110
Wuhan Sungreen	Office Building	-	6,302,744
Wuhan Sungreen	Utility Systems Setup	-	1,099,816
Wuhan Sungreen	Gate Remodeling	-	55,264
		\$15,031,490	\$13,011,300

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****11. INTANGIBLE ASSETS**

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

Category of Asset	At June 30, 2012	At December 31, 2011
Trademarks	98,897	113,910
Mitsubishi License	306,604	325,373
Tianyu CAD License	7,857	4,252
Sunway CAD License	11,712	13,130
Microsoft License	16,377	18,068
	441,447	474,733
<u>Less: Accumulated Amortization</u>		
Trademarks	(65,766 )	(78,165 )
Mitsubishi License	(226,218)	(229,287 )
Tianyu CAD License	(3,264 )	(3,306 )
Sunway CAD License	(10,345 )	(11,116 )
Microsoft License	(6,964 )	(7,818 )
	(312,557)	(329,692 )
Intangible Assets, <i>Net</i>	128,890	145,041

The weighted average amortization period for the Company's intangible assets at June 30, 2012 and December 31, 2011 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.

The discontinued operations do not have any intangible assets.

## 12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at June 30, 2012 and December 31, 2011 for the Company's bank loans and notes payable.

### Continuing Operations

Subsidiary	Type	Name of Lender	Due Date	Interest Rate Per Annum	At June 30, 2012
<b>Short-term</b>					
Wuhan Blower	Bank Loans	Hankou Bank	7/13/2012	5.47 %	1,582,354
Wuhan Blower	Bank Loans	Hankou Bank	10/14/2012	5.47 %	1,582,354
Wuhan Blower	Bank Loans	Gansu Trust Co., Ltd.	12/15/2012	8.53 %	11,076,470
Wuhan Blower	Bank Loans	China Minsheng Banking Corp., Ltd.	1/8/2012	9.60 %	-
Wuhan Blower	Bank Loans	Shenzhen Development Bank	6/3/2013	7.2 %	4,747,061
Wuhan Blower	Bank Loans	Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd.	12/09/2012	18 %	829,153
Wuhan Blower	Bank Loans	Wuhan Min Ze Investment Co., Ltd.	12/1/2012	0.00 %	3,766,002
Wuhan Blower	Bank Loans	Agricultural Bank of China	9/21/2012	5.40 %	7,595,297
Wuhan Blower	Bank Loans	Agricultural Bank of China	6/29/2013	7.2 %	5,380,002
Wuhan Blower	Bank Loans	China Construction Bank	7/1/2012	5.40 %	3,322,943
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2012	6.56 %	-
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2013	8.244 %	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/7/2013	7.872 %	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/11/2013	7.572 %	6,329,414
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572 %	3,164,707
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572 %	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	5/19/2012	8.30 %	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/13/2012	8.30 %	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/16/2012	8.30 %	-
Wuhan Generating	Bank Loans	Agricultural Bank of China	6/15/2012	6.63 %	-
Wuhan Generating	Bank Loans	Agricultural Bank of China	7/14/2012	6.89 %	2,690,001
Wuhan Generating	Bank Loans	Agricultural Bank of China	12/18/2012	7.87 %	3,164,707
Wuhan Generating	Bank Loans	Agricultural Bank of China	5/27/2013	6.15 %	3,639,413
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/2/2012	7.57 %	-
Wuhan Generating	Bank Loans	Shenzhen Development Bank	3/12/2012	6.10 %	-
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/5/2013	7.38 %	4,747,060
Wuhan Generating	Bank Loans	Wuhan Dong Xi Hu District Wu Yi Petty Loan Co., Ltd.	N/A	N/A	2,373,530
Total					80,231,650



**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

## Notes

## Payable

Wuhan Blower	Notes Payable	Hankou Bank	1/11/2012	-	2,670,982	
Wuhan Blower	Notes Payable	Hankou Bank	2/5/2012	-	4,713,498	
Wuhan Blower	Notes Payable	Hankou Bank	4/7/2012	-	4,713,498	
Wuhan Blower	Notes Payable	Hankou Bank	6/8/2012	-	11,312,395	
Wuhan Blower	Notes Payable	Hankou Bank	7/12/2012	-	1,898,824	-
Wuhan Blower	Notes Payable	Hankou Bank	7/13/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/14/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/15/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/16/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/17/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	8/6/2012	-	3,955,884	-
Wuhan Blower	Notes Payable	Hankou Bank	8/7/2012	-	791,177	-
Wuhan Blower	Notes Payable	Hankou Bank	10/18/2012	-	3,164,707	-
Wuhan Blower	Notes Payable	Hankou Bank	10/19/2012	-	1,582,354	-
Wuhan Blower	Notes Payable	Hankou Bank	12/7/2012	-	4,747,061	-
Wuhan Blower	Notes Payable	Hankou Bank	12/11/2012	-	3,322,943	-
Wuhan Blower	Notes Payable	Shenzhen Development Bank	1/1/2012	-	-	44
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/2/2012	-	-	45
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/19/2012	-	-	69
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/12/2012	-	-	18
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/10/2012	-	-	38
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/12/2012	-	-	53
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/18/2012	-	-	22
Wuhan Blower	Notes Payable	Shenzhen Development Bank	8/6/2012	-	3,164,707	-
Wuhan Generating	Notes Payable	Hankou Bank	6/19/2012	-	-	7,3
Wuhan Generating	Notes Payable	Hankou Bank	7/12/2012	-	316,471	-
Wuhan Generating	Notes Payable	Hankou Bank	12/21/2012	-	5,538,238	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/13/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/18/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Shenzhen Development Bank	12/5/2012	-	1,107,648	-
Total					<b>\$ 46,204,725</b>	<b>\$ 33</b>

Total Short Term Bank Loans and Notes					\$ 126,436,381	\$ 11
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Discontinued Operations							
Wuhan Sungreen	Notes Payable	Industrial Bank Co., Ltd.	10/23/2012	-		4,747,061	-
<b>Total</b>						<b>\$ 4,747,061</b>	<b>-</b>
<b>Long-term</b>							
Wuhan Generating	Bank Loans	Hankou Bank	9/30/2013	6.15 %		4,430,590	4
Wuhan Generating	Bank Loans	Hankou Bank	10/11/2013	6.15 %		1,424,117	1
<b>Total Long Term Bank Loans and Notes</b>						<b>5,854,707</b>	<b>\$ 6</b>

Banking facilities extended by the Hankou Bank were secured by the Company's and Wuhan Sungreen's mortgage of real property and Hubei Di Long Industrial Group's mortgage of real property in 2011 and 2012.

The loan from Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd was guaranteed by Wuhan Generating's equity pledge, and guaranteed by Wuhan Generating, Wuhan Sungreen and Jie Xu.

The loan from China Construction Bank is secured by the company's real property and land.

Wuhan Blower's loan from Agricultural Bank of China is secured by the Company's real property and the Company's equity interest in Wuhan Generating. To add further credit enhancements, Hubei Zhongzhou Investment Company has guaranteed \$2,571,161 of this loan, the remaining balance of \$10,419,555 has been guaranteed by Hubei Huaguang International Trade Co., Ltd.

Wuhan Generating's loan from Agricultural Bank of China is secured by Hubei Libang Investment and Guaranty Co., Ltd, and Hubei Huaguang International Trade Co., Ltd.

Wuhan Generating's loans from Shenzhen Development Bank and Industrial Bank Co., Ltd are guaranteed by Jie Xu, Hongsheng Xu, and Wuhan Blower.

Banking facilities extended by the Agricultural Bank of China were secured by the Company's mortgage of real property.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

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.

As of June 30, 2012, there were no bank loans associated with the discontinued operations.

**13. WARRANTY LIABILITY**

Warranty liability is accrued and carried on the balance sheet as a component of 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 12-24 months following product installation.

The following table summarizes the activity related to the Company's product warranty liability for the six months ended June 30, 2012 and the year ended December 31, 2011:

	<b>June 30,</b>	<b>December 31,</b>
	2012	2011
Balance at beginning of period	\$1,012,771	\$ 1,937,227
Adjustment		
Accruals for current & pre-existing warranties issued during period	48,806	38,947
<u>Less:</u> Settlements made during period	(346,189 )	(963,404 )
<u>Less:</u> Reversals and warranty expirations	-	-
Balance at end of period	\$715,388	\$ 1,012,771

There was no outstanding warranty liability for discontinued operations.



**14. CAPITALIZATION**

The Company's outstanding securities at June 30, 2012 are shown in the following table:

Type of Security	Number	Issuance Date	Expiration Date
Common Stock	32,505,000	N/A	N/A
Series A Preferred	6,241,453	02/07/2007	N/A
Series B Preferred	6,354,078	09/05/2009	N/A
Options Issued to Directors	40,000	11/30/2007	11/30/2017
Options Issued to Directors	40,000	01/02/2008	01/02/2018
Options Issued to Directors	160,000	03/10/2010	03/10/2020
Total Shares on Fully Diluted Basis	45,340,531		

*Series A Convertible Preferred Stock*

The Series A Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock") is convertible into shares of the Company's common stock on a one-for-one basis. Holders of Series A Preferred Stock are entitled to a dividend equal to 5% per annum of the amount invested, subject to adjustment. These dividends are payable quarterly. In the event of a voluntary or involuntary liquidation, holders of Series A Preferred Stock are entitled to a liquidation preference of \$2.33 per share. This amount is in excess of the stock's par value of \$0.0001. The Series A Preferred Stock is cumulative, non-participating, and non-redeemable, and as such, there is no related sinking fund. On or after February 5, 2010, the Series A Preferred Stock will be mandatorily converted into common stock if the Company's common stock achieves certain price and volume requirements.

**Wuhan General Group (China), Inc.**

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**Notes to Financial Statements**

**(Stated in US Dollars)**

*Series B Convertible Preferred Stock*

On September 5, 2008, the Company entered into an Agreement to Amend Series J Warrants of the Company with holders of warrants exercisable for a majority of the shares of warrant stock issuable under the Company's Series A, B and J warrants. This agreement amended the Series J Warrants so that such warrants are exercisable for shares of the Company's Series B Convertible Preferred Stock, par value \$0.0001 per share (the "Series B Preferred Stock"). Prior to this agreement, such warrants were exercisable for shares of the Company's common stock.

In connection with this agreement, the Company designated 9,358,370 shares of preferred stock as "Series B Convertible Preferred Stock, par value \$0.0001 per share" with those rights and preferences as set forth in the Certificate of Designation of the Relative Rights and Preferences of the Series B Preferred Stock of the Company. The Series B Preferred Stock ranks senior to the Company's common stock and junior to the Company's Series A Preferred Stock. The shares of Series B 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 Preferred Stock and except as otherwise required by Nevada law, the Series B Preferred Stock has no voting rights. The Series B Preferred Stock is non-redeemable and is not entitled to dividends. When accounting for the Series B Preferred Stock, the Company determined that they qualified as equity because the aforementioned characteristics made them akin to common stock.

Investors holding the amended Series J Warrants exercised their right to purchase Series B Preferred Stock at \$2.33 per share. In 2008, certain investors exercised their amended Series J Warrants for a total of 6,369,078 shares of Series B Preferred Stock. The Company received gross proceeds of \$14,839,952 for the issuance of those shares in connection with the exercise of the Series J Warrants. The total amount of commission paid to the placement agent, 1st BridgeHouse Securities, was 10% of the gross proceeds, or \$1,483,995. The Company also paid a total of \$274,480 for other financing related expenses. The net proceeds from the transactions, after accounting for placement agent commissions and other related financing expenses, was \$13,081,477.

Simultaneously with the exercise of a portion of the Series J Warrants, a corresponding portion of the Series B and Series JJ Warrants became exercisable. Accordingly, the Company accounted for the net proceeds of this issuance by allocating to Par Value, Additional Paid in Capital attributable to Series B Preferred Stock, and Additional Paid in

Capital attributable to Series B and JJ Warrants. The Company determined that the Series B Preferred Stock had a beneficial conversion feature (BCF). Accordingly, the Company accounted for this BCF as a constructive preferred dividend, which is a charge that reduces retained earnings and increases additional paid in capital attributable to the Series B Preferred Stock. The Company also transferred a prorated portion of proceeds previously recorded under Warrants A, J, B, and C to the Additional Paid in Capital of Series B Preferred Stock to reflect the exercise of the amended Series J Warrants.

In accordance to EITF 00-27 and EITF 98-5, the Company accounted for the modification of the Series J warrants as capital transaction because the modification of the warrants was concurrent with the Company's investors contributing more working capital to the Company through the exercise of the Series J warrants. In consideration of SFAS 123(R), the Company does not believe there is additional incremental value that should be charged to earnings because the fair value assigned to the Series B Convertible Preferred Stock was less than the fair value of the Company's common stock based on the market's closing price on September 5, 2008 and the valuation provided by investment bankers on September 3, 2008. The Series J warrant holders did not receive any additional value as a result of the amendment.

#### Warrant Recapitalization

On December 13, 2010, the Company entered into a series of agreements designed to reduce the overhang of the Company's Series A, B, C, AA, BB and JJ warrants and to simplify the Company's capital structure.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

With respect to the Series A and Series B warrants, each Series A and Series B warrant holder was given the option to (i) sell all or part of such holder's warrant to Fame Good International Limited, the Company's controlling stockholder ("Fame Good"), for \$0.50 per share of warrant stock pursuant to a Warrant Purchase Agreement entered into by and among the Company, Fame Good and certain warrant holders (the "Warrant Purchase Agreement") and/or (ii) exchange all or part of such holder's warrant for the issuance by the Company of 0.5 shares of the Company's common stock, par value \$0.0001 per share, per share of warrant stock pursuant to a Warrant Exchange Agreement entered into by and among the Company and certain warrant holders (the "Series A and B Warrant Exchange Agreement"). The director and controlling stockholder of Fame Good is Mr. Xu Jie, who currently serves as the Chairman of the Company.

The Series A and Series B warrant holders sold warrants to purchase an aggregate of 3,913,905 shares of common stock to Fame Good under the Warrant Purchase Agreement and exchanged warrants to purchase an aggregate of 9,865,222 shares of common stock with the Company under the Series A and B Warrant Exchange Agreement. The warrant purchase closed on December 13, 2010, and the warrant exchange with the Series A and Series B warrant holders, other than Fame Good, closed on the same date. In total, the Company issued 4,932,609 shares of common stock in connection with the recapitalization of the Series A and Series B warrants. This amount includes 1,956,952 shares of common stock issued to Fame Good upon the exchange of the warrants that it purchased from certain Series A and B warrant holders. The Company closed on the warrant exchange with Fame Good on January 21, 2011.

With respect to its Series C, AA, BB and JJ warrants, the Company entered into a Warrant Exchange Agreement with Fame Good and all of the Series C, AA, BB and JJ warrant holders (the "Series C, AA, BB and JJ Warrant Exchange Agreement") pursuant to which the Company exchanged all of the outstanding Series C, AA, BB and JJ warrants for the issuance by the Company of (i) 1.372921615 shares of the Company's common stock per share of Series C warrant stock; (ii) 0.8203 shares of the Company's common stock per share of Series AA and Series BB warrant stock; and (iii) 0.8288 shares of the Company's common stock per share of Series JJ warrant stock. The Company closed on the warrant exchange with the Series C, AA, BB and JJ warrant holders on January 21, 2011. The Company issued 2,220,456 shares of common stock to the Series C, AA, BB and JJ warrant holders at this closing.

Upon completion of the warrant recapitalization on January 21, 2011, the Company had 32,505,000 shares of common stock outstanding. After the completion of the transactions, the Company had one Series A warrant outstanding representing the right to purchase 128,755 shares of the Company's common stock. The Company no longer has any Series B, C, AA, BB or JJ warrants outstanding.

**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 the Company's registered Paid-in capital. The Company had future unfunded commitments, as provided below.

	<b>June 30,</b>	<b>December 31,</b>
	2012	2011
Unadjusted Registered Capital in PRC	\$52,575,256	\$ 52,575,256
50% maximum thereof	26,287,628	26,287,628
<u>Less:</u> Amounts Appropriated to Statutory Reserve	(4,563,592 )	(4,563,592 )
Unfunded Commitment	\$21,724,036	\$ 21,724,036

**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 from earnings and profits after foreign income taxes, which has not yet occurred.

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate 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. For the years ended December 31, 2010 and 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate. The Company expects the tax rates to remain the same in 2011.

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.

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

	June 30, 2012	June 30, 2011
Income (loss) before taxes:		
US Federal	\$ (34,819 )	\$ (4,125,855 )
US State	-	-
BVI	-	(4,332 )
PRC	2,767,749	6,752,042
Total income before taxes from continuing operations	2,732,930	2,621,855
Income (Loss) before taxes from discontinued operation	(365,806 )	(198,370 )
Total income before taxes	\$ 2,367,124	\$ 2,423,485
Provision for taxes:		
Current:		
U.S. Federal	-	-
U.S. State	-	-
BVI	-	-

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PRC	753,425	844,005		
Provision for taxes from continuing operations	753,425	844,005		
Provision for taxes from discontinued operations	-	-		
Currency effect	-	-		
	\$ 753,425	\$ 844,005		
Deferred:				
U.S. Federal	-	-		
U.S. State	-	-		
BVI	-	-		
PRC	-	-		
Deferred taxes from continuing operations	-	-		
Total provision for taxes from continuing operations	753,425	-		
Deferred taxes from discontinued operations	-	-		
Currency effect	-	-		
Total provision for taxes from discontinued operations	-	844,005		
Total provision for taxes	\$ 753,425	\$ 844,005		
Effective tax rate	31.83	% 34.83	%	

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

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 June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Deferred tax assets		
Beginning balance – continuing operations	\$ 1,238,831	\$ 1,192,532
Current year additions resulting bad debt expense & warranty accrual expense – continuing operations	2,438,424	-
Reversals – continuing operations	(1,023,910 )	-
Valuation allowance – continuing operations	-	-
Foreign currency effect – continuing operations	10,120	46,299
Ending balance – continuing operations	2,663,465	1,238,831
Beginning balance – discontinued operations	-	282,898
Current year additions resulting bad debt expense & warranty accrual expense – discontinued operations	-	-
Reversals – discontinued operations	-	-
Valuation allowance – discontinued operations	-	(288,942 )
Foreign currency effect – discontinued operations	-	6,044
Ending balance – discontinued operations	-	-
Beginning balance – continuing operations	\$ 1,238,831	\$ 1,192,532
Beginning balance – discontinued operations	-	282,898
Beginning balance	1,238,831	1,475,430
Ending balance – continuing operations	2,663,465	1,238,831
Ending balance – discontinued operations	-	-
Ending balance	2,663,465	1,238,831
Total deferred tax assets	2,663,465	1,238,831
Deferred tax liabilities		
Total deferred tax liabilities	-	-
Net deferred tax assets	\$ 2,663,465	\$ 1,238,831
Reported as:		



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Current deferred tax assets	2,663,465	1,238,831
Non-current deferred tax assets	-	-
Non-current deferred tax liabilities	-	-
Net deferred taxes	\$ 2,663,465	\$ 1,238,831

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

The differences between the U.S. federal statutory income tax rates and the Company's effective tax rate for the six months ended June 30, 2012 and the year ended December 31, 2011 are shown in the following table:

	6/30/2012		12/31/2011
U.S. federal statutory income tax rate	34.00	%	N/A
Lower rates in PRC, net	(9.00)	)%	N/A
Accruals in foreign jurisdictions	6.83	%	N/A
Tax holiday	N/A		N/A
Effective tax rate	31.83	%	N/A

**17. EARNINGS PER SHARE**

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

	3 months ended June 30, 2012	3 months ended June 30, 2011	6 months ended June 30, 2012	6 months ended June 30, 2011
Basic Earnings Per Share Numerator				
Net Income	\$60,595	\$2,991,273	\$1,613,699	\$1,579,480
Income from Continuing Operations	249,283	3,082,166	1,979,505	1,777,850
Income (Loss) from Discontinued Operations	(188,688 )	(90,893 )	(365,806 )	(198,370 )
Less:				
Preferred Dividends	181,286	181,284	362,570	360,577
Income Available to Common Stockholders	(120,691 )	2,809,989	1,251,129	1,218,900
Income from Continuing Operations Available to Common Stockholders	67,997	2,900,881	1,616,935	1,417,270
Income (Loss) from Discontinued Operations Available to Common Stockholders	(188,688 )	(90,893 )	(365,806 )	(198,370 )

Diluted Earnings Per Share Numerator

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Income Available to Common Stockholders	\$ (120,691 )	\$ 2,809,989	\$ 1,251,129	\$ 1,218,903
Income from Continuing Operations Available to Common Stockholders	67,997	2,900,881	1,616,935	1,417,270
Income (Loss) from Discontinued Operations Available to Common Stockholders	(188,688 )	(90,893 )	(365,806 )	(198,370 )
Add:				
Preferred Dividends	181,286	181,284	362,570	360,577
Income Available to Common Stockholders on Converted Basis	60,595	2,991,273	1,613,699	1,579,477
Income from Continuing Operations Available to Common Stockholders on Converted Basis	249,283	3,082,166	1,979,505	1,777,847
Income (Loss) from Discontinued Operations Available to Common Stockholders on Converted Basis	\$ (188,688 )	\$ (90,894 )	\$ (365,806 )	\$ (198,370 )
Original Shares:	32,505,000	32,505,000	32,505,000	28,327,607
Additions from Actual Events				
- Issuance of Common Stock resulting from the Recapitalization of Warrants	-	-	-	3,713,238
Basic Weighted Average Shares Outstanding	32,505,000	32,505,000	32,505,000	32,040,845
Dilutive Shares:				
Additions from Potential Events				
- Conversion of Series A Preferred Stock*	6,241,453	6,241,453	-	-
- Conversion of Series B Preferred Stock*	6,354,078	6,354,078	6,354,078	6,354,078
- Exercise of Employee & Director Stock Options*	-	-	-	-
Diluted Weighted Average Shares Outstanding:	45,100,531	45,100,531	38,859,078	38,394,923
Earnings Per Share				
Basic - Net Income	\$ (0.00 )	\$ 0.09	\$ 0.04	\$ 0.04
-Income from Continuing Operations	(0.00 )	0.09	0.05	0.05
-Loss from Discontinued Operations, net of taxes	(0.01 )	(0.00 )	(0.01 )	(0.01 )
Diluted - Net Income	\$ (0.00 )	\$ 0.06	\$ 0.04	\$ 0.04
-Income from Continuing Operations	0.01	0.06	0.05	0.05
-Income (Loss) from Discontinued Operations, net of taxes	(0.00 )	(0.00 )	(0.01 )	(0.01 )
Weighted Average Shares Outstanding				
- Basic	32,505,000	32,505,000	32,505,000	32,040,845
- Diluted	45,100,531	45,100,531	38,859,078	38,394,923

\* Potentially anti-dilutive

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****18. OPERATING SEGMENTS**

The Company individually tracks the performance of its three operating subsidiaries: Wuhan Blower, Wuhan Generating, and Wuhan Sungreen. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Wuhan Sungreen 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 six months ended June 30, 2012 and 2011, and financial position at June 30, 2012 and December 31, 2011. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

Results of Operations	Continuing Operations				Discontinued
	Wuhan	Wuhan	Company,	Total	Operations
For the six months ended June 30, 2012	Wuhan Blower	Wuhan Generating	UFG, Adjustments		Wuhan Sungreen
Sales	\$32,382,218	\$18,301,415	\$ -	\$50,683,633	\$ 118,172
Cost of Sales	26,141,449	14,699,595	-	40,841,044	102,828
Gross Profit	6,240,769	3,601,820	-	9,842,589	15,344
Operating Expenses	3,240,938	1,365,299	51,359	4,657,596	401,019
Other Income (Expenses)	(916,129 )	(1,548,408 )	12,474	(2,452,063 )	19,869
Earnings before Taxes	2,083,702	688,113	(38,885 )	2,732,930	(365,806 )
Taxes	520,925	232,499	-	753,425	-
Net Income	\$1,562,777	\$455,614	\$ (38,886 )	\$1,979,505	\$ (365,806 )
Financial Position	Continuing Operations				Discontinued
At June 30, 2012	Wuhan	Wuhan	Company, UFG,		Wuhan

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	Blower	Generating	Adjustments	Total	Sungreen
Current Assets	\$ 137,789,175	\$ 108,228,389	\$ (16,211,501)	\$ 229,806,063	\$ 5,493,464
Non Current Assets	50,750,693	38,118,903	(35,166,214)	53,703,382	24,709,545
Total Assets	188,539,868	146,347,292	(51,377,715)	283,509,445	30,203,009
Current Liabilities	97,791,179	86,727,610	(10,860,544)	173,658,245	19,162,224
Total Long Term Liabilities	-	5,854,707	-	5,854,707	-
Total Liabilities	97,791,179	92,582,317	(10,860,544)	179,512,952	19,162,224
Net Assets	90,748,689	53,764,975	(40,517,171)	103,996,493	11,040,785
Total Liabilities & Net Assets	\$ 188,539,868	\$ 146,347,292	\$ (51,377,715)	\$ 283,509,445	\$ 30,203,009

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

Results of Operations For the six months ended June 30, 2011	Continuing Operations				Discontinued Operations
	Wuhan Blower	Wuhan Generating	Company, UFG, Adjustments	Total	Wuhan Sungreen
Sales	\$30,005,579	\$29,638,324	\$-	59,643,903	\$ 401,690
Cost of Sales	22,796,209	20,753,777	-	43,549,985	294,713
Gross Profit	7,209,370	8,884,547	-	16,093,918	106,977
Operating Expenses	3,135,783	2,160,265	674,127	5,970,174	307,674
Other Income (Expenses)	(2,637,861 )	(1,407,970 )	(3,456,058 )	(7,501,889 )	2,328
Earnings before Taxes	1,435,727	5,316,312	(4,130,184 )	2,621,855	(198,370 )
Taxes/(Deferred Tax Benefit)	179,466	664,539	-	844,005	-
Net Income	\$1,256,261	\$4,651,773	\$(4,130,184 )	\$1,777,850	\$(198,370 )
Financial Position At December 31, 2011	Continuing Operations				Discontinued Operations
	Wuhan Blower	Wuhan Generating	Company, UFG, Admin Adjustments	Total	Wuhan Sungreen
Current Assets	127,051,429	79,795,002	(13,471,000 )	193,375,431	2,223,395
Non Current Assets	50,213,959	37,003,930	(34,917,387 )	52,300,502	24,672,213
Total Assets	177,265,388	116,798,932	(48,388,387 )	245,675,933	26,895,608
Current Liabilities	88,711,466	57,817,909	1,016,845	147,546,220	1,401,330
Total Long Term Liabilities	-	6,048,989	-	6,048,989	-
Total Liabilities	88,711,466	63,866,898	1,016,845	153,595,209	1,401,330
Net Assets	88,553,922	52,932,034	(49,405,232 )	92,080,724	25,494,278
Total Liabilities & Net Assets	177,265,388	116,798,932	(48,388,387 )	245,675,933	26,895,608

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. The corporate expenses include the costs for professional fees related to corporate matters and compliance efforts. 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 the Company's operating segments. Intercompany eliminations have not been applied to each individual operating segment for the purposes of reporting the results of operations and the financial position of each operating segment. The adjustments represent the eliminations necessary to consolidate the financial statements. See Note 2(b) - Consolidation.

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

**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 six months ended June 30, 2012 and year ended December 31, 2011, the Company recorded \$0 and \$4,555 of stock compensation expense, respectively. The entire stock option compensation expenses were recorded as general and administrative expenses given the nature of the work contribution of the grantees.

The range of the exercise prices of the outstanding stock options at June 30, 2012 are shown in the following table:

Price Range	Number of Shares
\$0 - \$9.99	240,000 shares
\$10.00 - \$19.99	0 shares
\$20.00 - \$29.99	0 shares

The Company has not accrued or realized tax benefit related to the expense of stock options in the United States because it does not currently have a plan to repatriate its earnings.

The Company used the Black-Scholes Model to value the options granted. The following table shows the weighted average fair value of the grants as of June 30, 2012, and the assumptions that were employed in the model:

June 30,  
2012



Weighted-average fair value of grants:	\$0.27
Risk-free interest rate:	3.47 %
Expected volatility:	2.21 %
Expected life in months:	111.00

## **20. CONCENTRATION OF CREDIT RISK AND OTHER RISKS**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, accounts receivable, other receivable, and advances to suppliers. The Company maintains cash and cash equivalents with several financial institutions. It invests with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Receivables are from customers and suppliers and concentrated in the People's Republic of China. The Company performs ongoing credit evaluations of its customers and suppliers. The Company generally does not require collateral, but in most cases can place liens against the property, plant, or equipment constructed or terminate the contract if a material default occurs. The Company maintains an allowance for doubtful accounts which has been within management's expectations.

## **21. DISCONTINUED OPERATIONS**

In order to improve its cash flows from operations and working capital, the Company decided to redeploy its capital to meet requirements of its business plan. On December 29, 2010, the Company classified its subsidiary Wuhan Sungreen as a discontinued operation. Accordingly, Wuhan Sungreen's operations have been classified as discontinued operations in the consolidated statements of income and cash flows and the assets and associated liabilities have been classified as held for sale in the consolidated balance sheets. The Company reviewed its Wuhan Sungreen assets and plans to sell these assets for approximately \$20 million before 2012. Proceeds from the sales of Wuhan Sungreen assets will be used for working capital for Wuhan Blower and Wuhan Generating and potentially purchasing of equipment.

**Wuhan General Group (China), Inc.****As of June 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

In accordance with SFAS No. 144 (ASC 360-10), "Accounting for the Impairment or Disposal of Long-lived Assets" ("SFAS 144"), the results of Wuhan Sungreen operations have been excluded from continuing operations and reported as discontinued operations for the current and prior periods. Furthermore, the assets of Wuhan Sungreen have been reclassified as held for sale in the Balance Sheet for prior periods. On December 29, 2010, the Company assessed its long-lived assets in Wuhan Sungreen based on the best estimation per the revenue guidance and current profit gross margin and determined that no write-down is necessary because undiscounted cash flow is substantially more than the carrying values of the assets.

The following table summarizes the amounts included in income/(loss) from discontinued operations for all periods presented. These revenues and expenses were historically reported under Wuhan Sungreen operating segment, and are now reported in discontinued operations:

Discontinued Operations	6/30/2012	6/30/2011
For the six months ended	Wuhan	Wuhan
	Sungreen	Sungreen
Sales	118,172	\$401,690
Cost of Sales	102,828	294,713
Gross Profit	15,344	106,977
Operating Expenses	401,019	307,674
Other Income (Expenses)	19,869	2,328
Earnings before Taxes	(365,806 )	(198,370)
Taxes	-	-
Net Income	(365,806 )	\$(198,370)

The following table summarizes the amounts included in financial position from discontinued operations for all periods presented. These amounts included in financial position were historically reported under Wuhan Sungreen operating segment, and are now reported in discontinued operations:

Financial Position	June 30, 2012	December 31, 2011
At	Wuhan Sungreen	Wuhan Sungreen
Current Assets	5,493,464	2,223,395
Non Current Assets	24,709,545	24,672,213
Total Assets	30,203,009	26,895,608
Current Liabilities	19,162,224	1,401,330
Total Long Term Liabilities	-	-
Total Liabilities	19,162,224	1,401,330
Net Assets	11,040,785	25,494,278
Total Liabilities & Net Assets	30,203,009	26,895,608

**Wuhan General Group (China), Inc.**

**As of June 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

The tax effects of temporary differences caused the deferred assets/(liabilities) associated with assets held for sale at June 30, 2012 and December 31, 2011 are as follows:

	6/30/2012	12/31/2011
Non-current deferred tax assets	\$-	\$-
Loss carryover items net of valuation allowance	-	-
Total deferred tax assets	-	-
Non-current deferred tax liabilities	-	-
Total deferred tax liabilities	-	-
Net deferred tax liabilities	\$-	\$-

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

### Cautionary Statement Regarding Forward-Looking Statements

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.. 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, and our ability to collect on our accounts receivable. The words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “projects,” “should,” and similar expressions, 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;
- 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 and in our other SEC filings. 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 Limited (“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 Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”). 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 Sungreen manufactures silencers, connectors and other general parts for industrial blowers and electrical equipment, and it produces general machinery equipment. Wuhan Blower, Wuhan Generating and Wuhan Sungreen conduct all of their operations in the People’s Republic of China (“PRC” or “China”). Prior to our acquisition of UFG in February 2007, we were a publicly shell company with no operations other than efforts to identify suitable parties for a merger transaction. Our corporate structure is the following:

The information and data contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results for the three month periods ended June 30, 2012 and 2011 and the financial condition at June 30, 2012. The amounts shown below that were originally denominated in RMB were translated into U.S. dollars at the rate of 6.3197RMB per 1 U.S. dollar, which is the June 30, 2012 period end exchange rate that the Company used in the accompanying financial statements.

### *Recent Developments*

Effective December 29, 2010, we decided to sell the assets and business of Wuhan Sungreen. Accordingly, the results of Wuhan Sungreen's operations have been excluded from continuing operations and reported as discontinued operations in the financial statements for the three month periods ended June 30, 2012 and 2011. Wuhan Sungreen is continuing its operations pending further action. As of June 30, 2012, we estimate that the fair market value of Wuhan Sungreen's assets is approximately \$18 to 24 million. We anticipate that all of the Wuhan Sungreen assets will be sold prior to October 1, 2012, and that any proceeds from the sale of such assets will be used to meet the working capital needs of Wuhan Blower and Wuhan Generating and/or to purchase new equipment for Wuhan Blower and Wuhan Generating.

Unless otherwise indicated, information presented in this Quarterly Report on Form 10-Q relates only to the Company's continuing operations, which include the businesses conducted by Wuhan Blower and Wuhan Generating. See Note 21 to the financial statements included in "Part I Financial Information—Item 1. Financial Statements" for information related to the business we have classified as discontinued operations, which includes the business conducted by Wuhan Sungreen.

### *Results of operation for the three months ended June 30, 2012, as compared to three months ended June 30, 2011*

*Sales.* During the three months ended June 30, 2012, we generated \$22.39 million as compared to \$32.26 for the same period in 2011, representing a decrease of \$10 million, or 30.6%. This decrease was the result of sales gained from of lower price sales order.

*Cost of Sales.* During the three months ended June 30, 2012, our cost of sales was \$18.58 million, as compared to \$22.74 million during the same period in 2011, representing a decrease of \$4.16 million, or 18.29%. As a percentage of sales, the cost of sales was 82.96% during the three months ended June 30, 2012 compared to 70.50% in the same period of 2011. This increase as a percentage of sales was primarily attributable to inflationary pressures in the

general economy of China relative to the overall cost of production.



*Gross Profit.* Our gross profit was \$3.82 million for the three months ended June 30, 2012, as compared to \$9.51 million for the same period in 2011, representing a decrease of \$5.69 million, or 59.89%. Gross profit as a percentage of sales was 17.04% for the three months ended June 30, 2012 compared to 29.50% during the same period in 2011.

*Selling Expenses.* Our selling expenses for the three months ended June 30, 2012 was \$380,756, as compared to \$267,446, representing an increase of \$113,310, or 42.37%. As a percentage of sales, selling expenses were 1.7% for the three months ended June 30, 2012 and 0.83% for the three months ended June 30, 2011. This decrease as a percentage of sales was primarily attributable to the decrease in transportation cost.

*General and Administrative Expenses.* During the three months ended June 30, 2012, our general and administrative expenses was \$1.98 million, as compared to \$2.90 million for the same period in 2011, representing a decrease of \$913,416, or 31.52%. As a percentage of sales, general and administrative expenses were 8.86% for the three months ended June 30, 2012 compared to 8.98% for the same period in 2011.

*Warranty Expense.* Our warranty expense was (\$1,010) for the three months ended June 30, 2012, as compared to \$21,674 for the same period in 2011. As a percentage of sales, warranty expense was -0.0045% for the three months ended June 30, 2012, as compared to 0.067% for the same period in 2011.

*Operating Income.* Our operating income decreased by approximately \$4.88 million, or 77.06%, to \$1.45 million for the three months ended June 30, 2012 from \$6.33 million for the same period in 2011. As a percentage of sales, operating was 6.48% for the three months ended June 30, 2012 compared to 19.62% for the same period in 2011. This decrease as a percentage of sales was primarily attributable to a decrease in gross profit margin

*Interest Income.* Our interest income decreased to \$24,008 for the three months ended June 30, 2012, as compared to \$80,404 for the same period in 2011. This decrease was due to decrease in interest earning bank deposits.

*Interest Expense.* Our interest expense increased \$1.49 million, or 50.42%, to approximately \$1.46 million for the three months ended June 30, 2012 from approximately \$2.95 million for the same period in 2011. This increase was due to an increase in loans from banks and other financial institutions in the current period.

*Income Tax.* Our income tax liability for the three months ended June 30, 2012 was \$132,901, as compared to \$456,593 during the same period in 2011, representing a decrease of \$323,692, or 70.89%. Wuhan Blower and Wuhan Generating were subject to 25% PRC income tax during the three months ended June 30, 2012.

*Net Income.* Net income was \$60,595 during the three months ended June 30, 2012, as compared to \$3.00 million during the same period in 2011, representing a decrease of \$2.93 million, or 97.97%. This decrease was primarily the result of the factors described above.

***Results of operation for the six months ended June 30, 2012, as compared to six months ended June 30, 2011***

*Sales.* During the six months ended June 30, 2012, we generated \$50.68 million as compared to \$59.64 for the same period in 2011, representing a decrease of \$8.56 million, or 15.02%. This decrease was the result of sales gained from of lower price sales order.

*Cost of Sales.* During the six months ended June 30, 2012, our cost of sales was \$40.84 million, as compared to \$43.55 million during the same period in 2011, representing a decrease of \$2.71 million, or 6.22%. As a percentage of sales, the cost of sales was 82.96% during the three months ended June 30, 2012 compared to 70.50% in the same period of 2011. This increase as a percentage of sales was primarily attributable to inflationary pressures in the general economy of China relative to the overall cost of production.

*Gross Profit.* Our gross profit was \$9.84 million for the six months ended June 30, 2012, as compared to \$16.09 million for the same period in 2011, representing a decrease of \$6.25 million, or 38.84%. Gross profit as a percentage of sales was 19.42% for the six months ended June 30, 2012 compared to 26.98% during the same period in 2011.

*Selling Expenses.* Our selling expenses for the six months ended June 30, 2012 was \$759,911, as compared to \$700,143, representing an increase of \$59,768, or 8.54%. As a percentage of sales, selling expenses were 1.50% for the six months ended June 30, 2012 and 1.17% for the six months ended June 30, 2011. This decrease as a percentage of sales was primarily attributable to the decrease in transportation cost.

*General and Administrative Expenses.* During the six months ended June 30, 2012, our general and administrative expenses was \$3.67 million, as compared to \$5.07 million for the same period in 2011, representing a decrease of \$1.40 million, or 27.67%. As a percentage of sales, general and administrative expenses were 7.24% for the six months ended June 30, 2012 compared to 8.51% for the same period in 2011.

*Warranty Expense.* Our warranty expense was \$227,209 for the six months ended June 30, 2012, as compared to \$195,705 for the same period in 2011. As a percentage of sales, warranty expense was .44% for the six months ended June 30, 2012, as compared to .33% for the same period in 2011.

*Operating Income.* Our operating income decreased by approximately \$4.94 million, or 48.78%, to \$5.18 million for the six months ended June 30, 2012 from \$10.12 million for the same period in 2011. As a percentage of sales, operating was 10.23% for the six months ended June 30, 2012 compared to 16.97% for the same period in 2011. This decrease as a percentage of sales was primarily attributable to a decrease in gross profit margin

*Interest Income.* Our interest income decreased to \$61,618 for the six months ended June 30, 2012, as compared to \$89,166 for the same period in 2011. This decrease was due to decrease in interest earning bank deposits.

*Interest Expense.* Our interest expense was \$3.32 million for the six months ended June 30, 2012, as compared to \$4.22 million during the same period in 2011, representing a decrease of 21.46%. This increase was due to an increase

in loans from banks and other financial institutions in the current period.

*Income Tax.* Our income tax liability for the six months ended June 30, 2012 was \$753,425, as compared to 844,005 during the same period in 2011, representing a decrease of \$90,580, or 10.73%. Wuhan Blower and Wuhan Generating were subject to 25% PRC income tax during the six months ended June 30, 2012.

*Net Income.* Net income was \$1.61 during the six months ended June 30, 2012, as compared to \$1.58 million during the same period in 2011, representing an increase of \$34,219, or 2.17%. This increase was primarily the result of the factors described above .

### **Liquidity and Capital Resources**

Our primary capital needs have been to fund the working capital requirements necessitated by the expansion of our manufacturing facilities. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of June 30, 2012, we had cash and cash equivalents of approximately \$65.63million, including restricted cash of approximately \$25.73 million.

The collection of our accounts receivable and other receivables is important to solidifying our liquidity position. Although we are still experiencing payment delays, we continue to focus on the collection of accounts receivable. Our accounts receivable ratio increased to 470 days at June 30, 2012, compared to 187 days at June 30, 2011.

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, our customers are required to pay us 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. Our customers are generally required to pay us an additional 30% of the purchase price when the equipment has been installed and has performed properly 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. Our standard sales contract generally requires payment of the remaining 10% no later than 18 months following the installation. Some customers have not strictly adhered to the contractual payment terms. This has increased our accounts receivable, which is discussed in detail below. 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.

Accounts receivable are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of 5% on outstanding accounts receivable. 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 accounts receivable have been determined to be uncollectible. We provide for bad debts principally based upon the aging of accounts receivable, the collectability of specific customer accounts, our experience in the collection of bad debts and the general condition of the industry.

Accounts receivable increased from approximately \$56.57 million to \$61.37 million from December 31, 2011 to June 30, 2012. The allowance for bad debt provided in accordance with the Company's accounting policy was \$285,442 at June 30, 2012. The Company applied a rate of 5% on outstanding accounts receivable, which results in an ending balance of approximately \$3.3million. Our accounts receivable are currently at an appropriate level considering the Company's recent increase in sales. However, we remain committed to a sustained focus on debt collection and management of our accounts receivable levels.

We have devoted increased resources to our collection efforts with respect to our outstanding accounts receivable. We have also aligned more closely the sales commission structure with the collection on sales. The accounts receivable balance increased by approximately \$4.80 million from December 31, 2011 to June 30, 2012.

At June 30, 2012, we had approximately \$24.07 million in other receivables, which is an increase of \$5.58 million compared to the balance at December 31, 2011.

We also had advances to suppliers of approximately \$26.52 million at June 30, 2012, which increased by \$1.34million compared to the balance at December 31, 2011. 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 had inventory turnover of 167 times for the three months ended June 30, 2012. We calculate inventory turnover as sales divided by average inventory. Inventory decreased approximately \$2.76 million in raw materials, increase approximately \$10.75 million in work in progress and \$1.59 million in finished goods for the three month period ended June 30, 2012. The increased inventory related to the Company's decrease in sales.

Net cash sourced in operating activities for the three months ended June 30, 2012 was approximately \$4.86 million, as compared to approximately -\$8.75 million provided in the three months ended June 30, 2011. This change was primarily due to an decrease in payments to suppliers and tax payments and increase in continue operation.

Net cash used by investing activities for the three months ended June 30, 2012 was approximately -\$18.11million, as compared to approximately \$18.53 million used for the three months ended June 30, 2011. This change was mainly the result of a decrease in restricted cash and a decrease in plant and equipment expenditures.

Net cash provided by financing activities for the three months ended June 30, 2012 was approximately \$16.80 million, as compared to approximately \$25.60 million for the three months ended June 30, 2011. This change was primarily due to the decrease in bank loans and notes.

We intend to maintain the current loan facilities with local banks and various financial institutions for new projects that we have obtained. 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 and Notes Generally

As of June 30, 2012, we had bank loans and debt from other non-bank entities totaling approximately \$137.04 million (based on an exchange rate of 6.3197RMB per 1 U.S. dollar). Information regarding these loans and notes is set forth below in U.S. dollars. We plan to either repay this debt as it matures or refinance this debt with other debt. However, there can be no assurance that we will be able to obtain new financing or refinance our debt on favorable terms, if at all, in the future.

#### Continuing Operations

Subsidiary	Type	Name of Lender	Due Date	Interest Rate Per Annum		At June 30, 2012	At December 31, 2011
<b>Short-term</b>							
Wuhan Blower	Bank Loans	Hankou Bank	7/13/2012	5.47 %		1,582,354	1,571,166
Wuhan Blower	Bank Loans	Hankou Bank	10/14/2012	5.47 %		1,582,354	1,571,166
Wuhan Blower	Bank Loans	Gansu Trust Co., Ltd.	12/15/2012	8.53 %		11,076,475	10,998,162
Wuhan Blower	Bank Loans	China Minsheng Banking Corp., Ltd.	1/8/2012	9.60 %		-	3,927,915
Wuhan Blower	Bank Loans	Shenzhen Development Bank	6/3/2013	7.2 %		4,747,061	-
Wuhan Blower	Bank Loans	Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd.	12/09/2012	18 %		829,153	1,571,166
Wuhan Blower			12/1/2012	0.00 %		3,766,002	3,739,375

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	Bank Loans	Wuhan Min Ze Investment Co., Ltd.					
Wuhan Blower	Bank Loans	Agricultural Bank of China	9/21/2012	5.40	%	7,595,297	12,883,561
Wuhan Blower	Bank Loans	Agricultural Bank of China	6/29/2013	7.2	%	5,380,002	-
Wuhan Blower	Bank Loans	China Construction Bank	7/1/2012	5.40	%	3,322,943	3,299,449
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2012	6.56	%	-	4,713,498
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2013	8.244	%	4,747,061	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/7/2013	7.872	%	4,747,061	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/11/2013	7.572	%	6,329,414	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572	%	3,164,707	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572	%	4,747,061	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	5/19/2012	8.30	%	-	7,855,830
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/13/2012	8.30	%	-	4,713,498
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/16/2012	8.30	%	-	6,284,664
Wuhan Generating	Bank Loans	Agricultural Bank of China	6/15/2012	6.63	%	-	6,756,014
Wuhan Generating	Bank Loans	Agricultural Bank of China	7/14/2012	6.89	%	2,690,001	2,670,982
Wuhan Generating	Bank Loans	Agricultural Bank of China	12/18/2012	7.87	%	3,164,707	-
Wuhan Generating	Bank Loans	Agricultural Bank of China	5/27/2013	6.15	%	3,639,413	-
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/2/2012	7.57	%	-	4,713,498
Wuhan Generating	Bank Loans	Shenzhen Development Bank	3/12/2012	6.10	%	-	3,142,331
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/5/2013	7.38	%	4,747,060	-
Wuhan Generating	Bank Loans	Wuhan Dong Xi Hu District Wu Yi Petty Loan Co., Ltd.	N/A	N/A		2,373,530	-
Total						80,231,656	80,412,274



Notes Payable						
Wuhan Blower	Notes Payable	Hankou Bank	1/11/2012	-		2,670,982
Wuhan Blower	Notes Payable	Hankou Bank	2/5/2012	-		4,713,498
Wuhan Blower	Notes Payable	Hankou Bank	4/7/2012	-		4,713,498
Wuhan Blower	Notes Payable	Hankou Bank	6/8/2012	-		11,312,395
Wuhan Blower	Notes Payable	Hankou Bank	7/12/2012	-	1,898,824	-
Wuhan Blower	Notes Payable	Hankou Bank	7/13/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/14/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/15/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/16/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/17/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	8/6/2012	-	3,955,884	-
Wuhan Blower	Notes Payable	Hankou Bank	8/7/2012	-	791,177	-
Wuhan Blower	Notes Payable	Hankou Bank	10/18/2012	-	3,164,707	-
Wuhan Blower	Notes Payable	Hankou Bank	10/19/2012	-	1,582,354	-
Wuhan Blower	Notes Payable	Hankou Bank	12/7/2012	-	4,747,061	-
Wuhan Blower	Notes Payable	Hankou Bank	12/11/2012	-	3,322,943	-
Wuhan Blower	Notes Payable	Shenzhen Development Bank	1/1/2012	-	-	442,211
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/2/2012	-	-	452,316
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/19/2012	-	-	693,970
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/12/2012	-	-	180,383
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/10/2012	-	-	384,815
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/12/2012	-	-	535,451
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/18/2012	-	-	227,176
Wuhan Blower	Notes Payable	Shenzhen Development Bank	8/6/2012	-	3,164,707	-
Wuhan Generating	Notes Payable	Hankou Bank	6/19/2012	-	-	7,227,364
Wuhan Generating	Notes Payable	Hankou Bank	7/12/2012	-	316,471	-
Wuhan Generating	Notes Payable	Hankou Bank	12/21/2012	-	5,538,238	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/13/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/18/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Shenzhen Development Bank	12/5/2012	-	1,107,648	-
Total					\$46,204,725	\$33,554,059
Total Short Term Bank Loans and Notes					\$126,436,381	\$113,966,333

## Discontinued Operations

Wuhan Sungreen	Notes Payable	Industrial Bank Co., Ltd.	10/23/2012	-	4,747,061	-
Total					\$4,747,061	-

**Long-term**

Wuhan Generating	Bank Loans	Hankou Bank	9/30/2013	6.15 %	4,430,590	4,556,380
Wuhan Generating	Bank Loans	Hankou Bank	10/11/2013	6.15 %	1,424,117	1,492,609
Total Long Term Bank Loans and Notes					5,854,707	\$6,048,989

Loan Facilities with Hankou Bank

On June 28, 2010, Wuhan Blower, Wuhan Generating and Wuhan Sungreen (collectively, the “Borrowers”), entered into a Loan Facility Agreement with Hankou Bank for a loan facility totaling RMB 320,000,000 (approximately \$48.71 million) in secured debt financing. The Borrowers, upon application, may access this loan facility from June 28, 2010 to June 28, 2013. Pursuant to certain Financial Consulting Service Agreements entered into between the Borrowers and Hankou Bank, dated June 29, 2010, the Borrowers must pay financial consultancy fees that aggregate to approximately RMB 2.84 million (approximately \$0.43 million) in connection with the loan facility with Hankou Bank.

Under this loan facility, Wuhan Blower executed a Loan Agreement On October 14, 2011, for a short-term loan for RMB 10,000,000 (approximately \$1.58 million). This short-term loan was obtained for working capital purposes. This short-term loan matures on October 14, 2012 and has a floating interest rate, which was 6.56% per annum as of June 30, 2012. If Wuhan Blower fails to make timely payments on this short-term loan, then it will be subject to a penalty rate of 150% of the effective interest rate. In addition, Wuhan Blower is subject to a penalty rate of the effective interest rate plus 100% if it fails to use the loan for the agreed upon purpose. Upon Hankou Bank’s request, Wuhan Blower must provide copies of financial statements and other requested information. If Wuhan Blower breaches the terms of the short-term loan, among other rights, Hankou Bank may charge compound interest and penalty interest, accelerate the maturity date of the loan and withhold or deduct such amounts from Wuhan Blower’s other accounts with Hankou Bank. This short-term loan is subject to an early repayment fee.

The obligations under the Loan Facility Agreement and Loan Agreements with Hankou Bank are secured by the real property of the Borrowers and guaranteed by Wuhan Blower and Wuhan Sungreen. The Loan Facility Agreement and the Loan Agreements are governed by the laws of the People’s Republic of China.

Loan Facilities with China Minsheng Banking Corp., Limited

On July 14, 2011, Wuhan Blower entered into a Loan Agreement with China Minsheng Banking Corp., Limited for a short term loan for RMB 25,000,000 (approximately \$3.96 million). This short-term loan was obtained for working capital purposes. This short-term loan matures on October 14, 2011 and has a fixed interest rate, which was 9.60% per annum as of June 30, 2012. If Wuhan Blower fails to make timely payments on this short-term loan, the interest rate will remain as stated in calculation for the extended period with no extra penalty rate.

#### 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 Sungreen. 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, the valuation of accounts receivable and inventories, deferred income taxes, warranty liability 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 U.S. and the PRC.

*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 ASC 350 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 Sungreen 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. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of March 31, 2012 and December 31, 2011, there were no significant impairments of its long-lived assets.

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

### *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 value-added tax at a rate of 17% 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 the 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, client entertainment, commissions, depreciation and travel and lodging expenses.

*Advertising expenses*

All advertising costs are expensed as incurred.

*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.

*Research and Development*

The Company expenses all research and development costs as incurred.

*Shipping and Handling*

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

*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	June 30 2012	December 31, 2011	June 30 2011
Period-end RMB: US\$ exchange rate	6.3197	6.3647	6.46400
Average period RMB: US\$ exchange rate	6.3255	6.4735	6.54818

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 U.S. dollars at the rates used in translation.

*Income Taxes*

The Company uses the accrual method of accounting to determine income taxes for the year. 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 consist 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, 2009, 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, 2008. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the period ended September 30, 2011, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate. For 2012, the Company's tax rate should be 25%.

The Company also 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	-	-

#### *Statutory Reserve*

In accordance with PRC laws, the Company maintains statutory reserves, which are appropriations 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 require 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. The Company cannot pay dividends from statutory reserves or paid in capital registered in the PRC.

#### *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 Policy*

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change the estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available.

#### *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.

#### *Financial Instruments*

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

*Retirement Plan*

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described in the Company's financial statements.

*Recent Accounting Pronouncements*

None.

*Discontinued Operations*

Certain amounts have been reclassified to present the Company's Wuhan Sungreen operations as discontinued operations. Unless otherwise indicated, information presented in the notes to the financial statements relates only to the Company's continuing operations. Information related to discontinued operations is included in Note 21 and in some instances, where appropriate, is included as a separate disclosure within the individual footnotes.

*Off-Balance Sheet Arrangements*

We do not have any off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable because we are a smaller reporting company.

**Item 4. 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 carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Principle Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2012. 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 Principle Accounting 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 this evaluation as of June 30, 2012, our Chief Executive Officer and Principle Accounting Officer concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. Therefore, our management concluded that our disclosure controls and procedures were not effective. We believe that the deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting, which are described under “Item 9A. Controls and Procedures. Internal Control Over Financial Reporting” in the Company’s Annual Report on Form 10-K filed with the SEC on April 6, 2012.

*Changes in Internal Control over Financial Reporting*

During the quarter ended June 30, 2012, the Company had no significant changes to its internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.



## **PART II.**

### **OTHER INFORMATION**

#### **Item 1. Legal Proceedings.**

Currently, the Company is not subject to any legal proceedings. From time to time, the Company may become subject to litigation or proceedings in connection with its business, as either a plaintiff or defendant. There are no such pending legal proceedings to which the Company is a party that, in the opinion of management, is likely to have a material adverse effect on the Company's business, financial condition or results of operations.

#### **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 or other securities. 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 or the value of our other securities could decline, and you could lose part or all of your investment.*

#### **Risk Factors Related to Our Business**

*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 December 31, 2011, we had approximately \$120.02 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.

***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 December 31, 2011, we had an aggregate amount of \$56.57 million in accounts receivable. 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 and increased collection costs in excess of management's expectations.

***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-K for the year ended December 31, 2011, our management carried out an evaluation of the effectiveness of the design and operation of our internal control over financial reporting and disclosure controls and procedures as of December 31, 2011. Based upon this evaluation, our CEO and CFO concluded that our internal control over financial reporting and disclosure controls and procedures contained significant deficiencies and material weaknesses and therefore were not effective. For more detailed information regarding our internal control over financial reporting and our disclosure controls and procedures, see Part II, Item 9A Controls and Procedures. 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 control over financial reporting or disclosure controls and procedures 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 have had, and continue to have, material weaknesses in internal control over financial reporting in prior fiscal years. Although we have taken certain actions in an effort to strengthen the weaknesses in our control structure, we cannot assure you that additional material weaknesses will not be identified in the future. If our internal control over financial reporting or disclosure controls and procedures are not effective, investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.***

We are consistently evaluating the design and operating effectiveness of our internal controls, a process which sometimes leads to modifications in such controls. As a result of such evaluations, we have instituted certain remedial measures designed to address certain material weaknesses in our internal control procedures. For more detailed information regarding our internal control over financial reporting and our disclosure controls and procedures, see Part II, Item 9A Controls and Procedures. These modifications could affect the overall effectiveness or evaluation of the control system in the future by us. 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, investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.

***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 U.S. 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.

***Our Chairman of the Board and controlling stockholder personally guarantees certain of our financing arrangements, the loss of which would adversely affect our business prospects, results of operations and financial condition.***

Our Chairman of the Board and controlling stockholder, 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 Chairman of the Board, 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 reduce significantly our spending, which would have a material adverse effect on our business prospects, financial condition and results of operations.

***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. Steel and iron may not remain available to us at competitive prices. 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. 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 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. For 2011, Wuhan Blower and Wuhan Generating were subject to a 12.5% income tax rate. We expect that our operating subsidiaries will be subject to the same rates in 2012.



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 it is unclear how tax authorities will determine the tax residency of enterprises established outside of China.

Based on a recent Notice issued by the State Administration of Taxation, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a resident enterprise if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) substantial assets and properties, accounting books, corporate chops, board and stockholder minutes are kept in China; and (iv) at least half of its directors or senior management resides in 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.

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

***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 August 20, 2012, there were 12,964,286 shares of our common stock issuable upon conversion of outstanding Series A Convertible Preferred Stock and Series B Convertible 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 common stock, which would contribute to a downward movement in the 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.

***Our common stock is no longer listed on a national securities exchange and is traded only in the over-the-counter market, which could negatively affect our stock price and liquidity.***

The shares of our common stock were listed on The NASDAQ Stock Market LLC (“Nasdaq”) under the symbol “WUHN.” On June 15, 2012, Nasdaq suspended our common stock from listing. Subsequently, on July 11, 2012, Nasdaq delisted our shares. Our common stock is now trading over-the-counter and is quoted on the OTC Markets. However, the extent of the public market for our common stock and the continued availability of quotations would depend upon such factors as the aggregate market value of the common stock, the interest in maintaining a market in our common stock on the part of securities firms and other factors. The OTC Market is significantly more limited market than the Nasdaq, and the quotation of our common stock on the OTC Market may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock. This could further depress the trading price of our common stock and could also have a long-term adverse effect on our ability to raise capital. There can be no assurance that any public market for our common stock will exist in the future or that we will be able to relist our common stock on a national securities exchange. In connection with the delisting of our common stock, there may also be other negative implications, including the potential loss of confidence in the Company by suppliers, customers and employees and the loss of institutional investor interest in our common stock.

***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 are prohibited from declaring dividends on our common stock or acquiring any of our equity securities so long as our Series A Convertible Preferred Stock remains outstanding.***

Pursuant to the terms of the Series A Convertible Preferred Stock Purchase Agreement, which was entered into in connection with the February 2007 private placement, we cannot declare or pay any dividends or make any other distributions to any holders of common stock or acquire any of our equity securities so long as any of the Series A Convertible Preferred Stock is outstanding. While our Series A Convertible Preferred Stock remains outstanding, our holders of common stock will have to rely solely on stock price appreciation for any return on their investment.

***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.*

***Climate change and related regulatory responses may impact our business.***

Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate U.S. federal and other regulatory responses in the near future. It is impracticable to predict with any certainty the impact of climate change on our business or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would increase slightly our operating costs, primarily through increased utility and transportation costs. In addition, many of our consumers operate power plants and any restrictions or penalties on their operations could adversely affect their demand for our products. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

To the extent that climate change increases the risk of natural disasters or other disruptive events in the areas in which we operate, we could be harmed. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, our plans may not fully protect us from all such disasters or events.

***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 Chairman of the Board, Xu Jie, is the owner of approximately 61.1% of our outstanding voting securities (excluding shares of our Series A and Series B Convertible 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**

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

In the last 30 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.

***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 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 common stock.***

The value of our common stock will be affected by the 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 24% 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 16 years, the rate of inflation in China has been as high as approximately 27.7% and China has experienced deflation as low as approximately minus 2.2%. 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 were not subject to the United States Foreign Corrupt Practices Act prior to the completion of the share exchange in February 2007. 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.

***Any recurrence of severe acute respiratory syndrome, or SARS, the H1N1 virus (swine flu) 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, and  
the sickness or death of our key officers and employees.

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

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable

**Item 5. Other Information.**

On June 15, 2012, Nasdaq suspended the Company's common stock from listing. Subsequently, on July 11, 2012, Nasdaq delisted our stock. Our common stock is now quoted on the OTC Markets under the symbol "WUHN". For further disclosure, please see the Company's Form 8-K filed with the SEC on July 2, 2012.

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**Item 6. Exhibits.**

Exhibit Number	Description of Exhibit
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002..
32.2+	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002..
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

+ In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

\* To be filed by amendment.

SIGNATURES

Pursuant to 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: August 21, 2012

WUHAN GENERAL GROUP (CHINA), INC.

By: /s/ Qi Ruilong

Name: Qi Ruilong

Title: President and Chief Executive Officer  
(Duly Authorized Officer and Principal

Executive Officer)

By: /s/ Carol Pan

Name: Carol Pan

Title: Principle Accounting Officer  
(Duly Authorized Officer and Principal

Accounting Officer)

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