

WUHAN GENERAL GROUP (CHINA), INC  
Form 10-K  
April 06, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

**(Mark One)**

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011

**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<br>of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

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

86-27-5970-0069  
(Registrant's Telephone Number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

| Title of Each Class                        | Name of Each Exchange on Which Registered |
|--|---|
| Common Stock, par value \$0.0001 per share | The NASDAQ Stock Market LLC               |

Securities registered under Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 Act). Yes  No

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$7,901,774 based on the closing sale price as quoted on the NASDAQ Capital Market.

As of April 5, 2012, the registrant had a total of 32,505,000 shares of common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the company's Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III.

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SIGNATURES

### Cautionary Statement Regarding Forward-Looking Statements

The information contained in this report includes some statements that are not purely historical fact and that are “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management’s expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, and our ability to collect on our accounts receivable. The words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “projects,” “should,” and similar expressions, or the negatives of these terms, identify forward-looking statements.

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

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

These risks and uncertainties, along with others, are also described in the Risk Factors section in Part I, Item 1A of this Form 10-K. 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.

## **PART I**

### **Item 1. Business.**

We obtained statistical data, market data and other industry data and forecasts used throughout, or incorporated by reference in, this report from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information.

#### **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”), which we formerly referred to as Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd., or Wuhan Xingelin. Wuhan Blower is a manufacturer of industrial blowers that are principally components of steam-driven electrical power generation plants. Wuhan Generating manufactures industrial steam and water turbines, which also are principally used in electrical power generation plants. Wuhan 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, which we refer to in this report as PRC or China. Prior to our acquisition of UFG in February 2007, we were a publicly held shell company with no operations other than efforts to identify suitable parties for a merger transaction.

#### *Our Corporate History*

The Company was incorporated on July 19, 1988 under the laws of the State of Colorado as Riverside Capital, Inc. On February 28, 1989, Riverside Capital completed a public offering of 20,500,000 units (consisting of common stock and warrants) at an offering price of \$0.01 per unit. Riverside Capital engaged in various business endeavors, and on March 18, 1992, acquired 100% of the outstanding shares of United National Film Corporation. At that time, we changed our name to United National Film Corporation. We were not successful in the film business, and in June 2001, we suspended all business activities and became a “reporting shell corporation.” As such, we had no operations other than maintaining our public company status and searching for a suitable party with which to execute a reverse merger transaction, in which a previously private company takes on our public company status. In October 2006, we changed our state of incorporation from Colorado to Nevada.

On February 7, 2007, we completed a share exchange transaction, in which we issued to Fame Good International Limited (“Fame”), as the sole stockholder of UFG, 17,912,446 newly issued shares of our common stock in exchange for all of the issued and outstanding capital stock of UFG held by Fame. As a result, UFG became our wholly owned subsidiary, Fame became our controlling stockholder and the management team of Wuhan Blower replaced our prior management. Prior to the share exchange transaction, we had no relationship with Fame, UFG and its subsidiaries. On March 13, 2007, the Company changed its name from “United National Film Corporation” to “Wuhan General Group (China), Inc.”



Prior to the share exchange transaction, we had 1,800,000 shares of common stock outstanding. Following the closing of the share exchange transaction, we had 19,712,446 shares of common stock outstanding. As of April 5, 2011, we had 32,505,000 shares of common stock outstanding.

*Background and History of UFG and Wuhan Blower*

UFG was incorporated in the British Virgin Islands in August 2006. Until the share exchange transaction in February 2007, UFG was a wholly owned subsidiary of Fame, also a BVI company and now our controlling stockholder. Our Chairman of the Board, Mr. Xu Jie, acquired control of Fame, and Fame acquired control of UFG, in late August 2006. Neither Fame nor UFG had any active business operations until UFG acquired Wuhan Blower in September 2006.

Wuhan Blower was founded in 1958 as the Wuhan Blower Company, a State-Owned Enterprise (“SOE”) and became one of the largest manufacturers of industrial blowers in central and southwest China. In 2004, Mr. Xu purchased the company with the intention of making changes to its management structure, employee utilization, plant location and general operations which would transform it from a traditional Chinese SOE into a modern, efficient operating company. Mr. Xu relocated the company to the East Lake Hi-Tech Development Zone in Wuhan, with much improved access to railroads, waterways and roads necessary for the transportation of its products, and constructed a new headquarters, research and development, and manufacturing facilities at this location.

On January 9, 2007, Wuhan Blower completed its acquisition of Wuhan Generating, a manufacturer of water and steam turbines, which is a complementary business to that of Wuhan Blower. We completed the construction of a new turbine manufacturing facility in 2009 for Wuhan Generating. We have installed a portion of the customized equipment in this facility and have begun producing steam turbines from this facility. We have purchased additional customized equipment for this facility and will install this equipment in order to increase our production capacity.

On December 25, 2008, we acquired certain assets to establish our newest subsidiary, Wuhan Sungreen. This is described in more detail below in “Overview – Establishment of Wuhan Sungreen.”

We are located in Wuhan, the capital of China’s Hubei Province and one of the ten largest cities in China. Hubei is centrally located and is a key player in the Chinese automotive, metallurgy, machinery, power generation, textiles and high-tech industries. Wuhan is one of the major university cities in the PRC, providing a highly educated workforce for the area’s industries.

*February 2007 Private Placement*

Also on February 7, 2007, we completed a private placement transaction in which we issued to nine institutional investors an aggregate of 10,287,554 shares of our newly created Series A Convertible Preferred Stock (“Series A Preferred Stock”) at a price of \$2.33 per share for gross proceeds of \$23,970,000. The Series A Preferred Stock is convertible into shares of our common stock on a 1-for-1 basis. The holders of our Series A Preferred Stock are not required to pay a conversion price or any other consideration in order to convert Series A Preferred Stock into common stock. The Series A Preferred Stock is entitled to a dividend equal to 5% per annum, which accrue quarterly. We must pay any unpaid dividends on our Series A Preferred Stock before paying dividends on our common stock.

Except with respect to specified transactions that may affect the Series A Preferred Stock and except as otherwise required by Nevada law, the Series A Preferred Stock has no voting rights. Of our outstanding shares of Series A Preferred Stock, 32.5% was converted into 3,343,560 shares of common stock in 2008 and none were converted in 2009 and 2010. The remaining shares of our Series A Preferred Stock will convert automatically into our common stock if the trading price and volume of our common stock reach certain levels. In the event of our liquidation, the holders of Series A Preferred Stock shall be entitled to receive, out of our assets available for distribution to stockholders, an amount equal to \$2.33 per share plus any accrued and unpaid dividends before any payment can be made to the holders of our common stock.

In the private placement, we also issued three series of common stock purchase warrants to the nine institutional investors - Series A, J and B.

The Series J Warrants had an exercise price of \$2.33 per share and expired on November 7, 2008. As described in more detail below in “Overview – Creation of Series B Preferred Stock” in this Part I, Item 1, we amended the terms of the Series J Warrants in September 2008 so that the warrants became exercisable for Series B Convertible Preferred Stock (“Series B Preferred Stock”) rather than common stock. Prior to the expiration date, a portion of the Series J Warrants was exercised for a total of 6,369,078 shares of Series B Preferred Stock.

The Series A and Series B warrant holders sold warrants to purchase an aggregate of 3,913,905 shares of common stock to Fame under a Warrant Purchase Agreement entered into by and among the Company, Fame and certain warrant holders (the “Warrant Purchase Agreement”), and exchanged warrants to purchase an aggregate of 9,865,222 shares of common stock with the Company under a Warrant Exchange Agreement entered into by and among the Company and certain warrant holders (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, 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. The warrant exchange with Fame closed on January 21, 2011. For more information, see “– Warrant Recapitalization.”

As partial consideration for services rendered by 1<sup>st</sup> BridgeHouse Securities, LLC (“1<sup>st</sup> BridgeHouse”), the placement agent for the February 2007 private placement, we agreed to issue warrants to purchase common stock to 1<sup>st</sup> BridgeHouse. This right is represented by Series C, AA, BB and JJ warrants originally issued to 1<sup>st</sup> BridgeHouse. The Company entered into a Warrant Exchange Agreement with Fame 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. In connection with the closing of this transaction, the Company issued an additional 4,177,393 shares of common stock in exchange for Series A, B, C, AA, BB and JJ warrants. The warrant exchange with the Series C, AA, BB and JJ warrant holders closed on January 21, 2011. For more information, see “– Warrant Recapitalization.”



*Creation of Series B 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.

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.





### *Establishment of Wuhan Sungreen*

On December 25, 2008, Wuhan Blower entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd., pursuant to which Wuhan Blower acquired certain assets including certain buildings, equipment and land use rights (the “Sukong Assets”). In connection with this acquisition, we created Wuhan Sungreen to hold the Sukong Assets and develop these assets into a new business that produces and supplies blower parts and machinery equipment to Wuhan Blower, Wuhan Generating and third party customers. On December 29, 2010, we decided to sell the assets and business of Wuhan Sungreen. For more information, see “Part I, Item 1. Business – Recent Developments.”

### **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 for the year ended December 31, 2010. Wuhan Sungreen is continuing its operations pending further action. As of December 31, 2010, 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 January 1, 2013, 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.

### **Our Products**

We engage primarily in the design, development, manufacture and sale of industrial blowers in China. Our industrial blowers are used primarily in steam-driven electrical power generation plants. In addition, we produce steam and water turbines in our turbine manufacturing facilities and in the shared facilities. Steam and water turbines are manufactured principally for use in electrical and hydropower plants. Finally, we recently began producing blower parts and machinery equipment. This business supplies Wuhan Blower and Wuhan Generating with these parts and equipment and also sells them to third parties.

### *Industrial Blowers*

#### Industrial Blowers Generally

Industrial blowers are used to move very large volumes of air through industrial processes. When used in conjunction with an industrial furnace in steam-driven electrical power generation plants, they:

- blow air into furnaces in order to increase oxygen and improve combustion;
- blow fuel (primarily coal dust) into furnaces; and
- remove furnace exhaust.

If pollution control is required for the waste gases, then:

- a blower will propel the exhaust gases through a pollution reduction unit (such as a de-sulphurization unit); and
- a final blower will push the “cleaned” gases to and through the smokestack.

Industrial blowers are custom-made for the specific installation in which they will be used. The blower can be driven by an industrial scale electric motor, a diesel engine or a steam turbine. In addition to their use in power generation plants, industrial blowers are also used in the metallurgy and petrochemicals industries, as well as for ventilation in mines, mass transit (subways, tunnels, stations) and sewage treatment (for aeration).

### Our Industrial Blower Products

Our primary blower products are:

*Axial fans.* These consist of a bladed impeller (fan) in an elongated cylindrical casing and are primarily used to provide high-volume, low-pressure air for larger power stations of 200 to 1,000 megawatts.

*Centrifugal Blowers.* These consist of a “squirrel cage” type impeller (or rotor) in a scroll- or spiral-shaped casing. Air is drawn into the center of the squirrel cage through a hole in the side of the casing and is thrown out at a right angle by the rotational force. These blowers provide lower volumes of air, but at higher pressures, and are used in medium-sized power stations of 100 to 300 megawatts for blowing coal dust into furnaces. They are also used for aeration in sewage treatment plants.

When required for noise abatement purposes, we also manufacture silencers or “mufflers” fitted to the exhaust side of our centrifugal blowers. These silencers are very similar in form and function to the muffler on an automobile: the silencer interior is fitted with perforated metal trays that are padded with a sound absorbing material such as fiberglass.

We are one of the largest suppliers of industrial blowers in our market to the Chinese electrical power generation industry, which is growing rapidly. All of our products are custom-built for specific purchasers. The majority of our product revenue comes from competitive bidding.

A typical blower costs approximately \$90,000 and takes 60 to 100 days to build, from design to finish. We are currently producing approximately 500 blower/fan units per year.

The manufacture of these products combines both low-tech and high-tech processes. The low-tech process consists of the cutting and welding of the steel for both the rotors and the casings. The high-tech process consists of the product design, the “finish” manufacturing of the rotor shafts, and the balancing of the rotor assemblies.

We make extensive use of computer aided design (CAD) and computer aided engineering (CAE) in the design phase of our manufacturing process. In particular, CAE provides us with the ability to do finite element analysis of our rotor designs, while CAD allows us to do three dimensional modeling (to include molding coordinates for the fan/blower blades) and design of the inlet and outlet parameters. Our relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of the China Science Academy allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics.

We have a sophisticated acoustics lab in our facility. We share this acoustics lab with our university partners, and the China Fan Performance Test Center uses it for some of its work.

Through the use of the above technologies, we are able to design fans/blowers of the highest efficiency providing precisely the volumes and pressures required. Parts purchased from third parties consist mainly of the electric motor specified by the client (normally equal to about 20% of the build cost of the assembly) and bearing castings.

## *Turbines*

### Steam Turbines Generally

In a steam-driven electrical or thermal power generation plant, blowers like those we manufacture feed fuel and air into a large furnace. The primary purpose of the furnace is to produce steam for the powering of steam-driven turbines. A steam turbine takes the force of the steam and converts it into rotary motion, which is then used to drive machinery.

Steam turbines are normally categorized by their output in watts – kilowatts through megawatts. A small steam turbine of 750 kilowatts is capable of lighting 7,500 100-watt light bulbs. A large 500 megawatt turbine can light 5 million 100-watt light bulbs or supply the power for a medium-sized city.

Steam turbines are high-precision, high-tolerance pieces of machinery and in many respects are similar to a jet engine. Each is built-to-order according to the design specifications of the customer. In general, they are very large pieces of machinery with extremely heavy castings. The manufacture of steam turbines, like blowers, requires both low-tech and high-tech processes.

### Water Turbines Generally

For those applications such as a hydropower plant where the customer is close to a source of water power and does not need steam for other applications in its plant, a water turbine may be more economical than a steam turbine. In this case, the cost of building a source of water pressure (typically a dam) and the viaduct to the water turbine must be weighed against the cost of building a steam plant. In general, water turbines have lower tolerances and are considered lower technology than steam turbines.

A water turbine operates very much like an enclosed water wheel – high velocity incoming water pushes against the turbine blades, forcing the turbine to rotate and provide power to the attached generator set.

As with a steam turbine, each is built-to-order according to the design specifications of the customer. The most important consideration in the design is the height of the water column above the turbine, which will determine how large the turbine must be and how fast it must turn to achieve the desired power output.

Our Turbine Products

We have been producing water turbines since 2007. We completed the construction of a new turbine manufacturing facility in 2009 for Wuhan Generating. We currently produce steam turbines at our new turbine manufacturing facility and we also produce steam turbines at our blower manufacturing facility and at a shared facility. As we receive additional turbine orders, we will purchase and install additional customized equipment in the facility to increase our production capacity.

We currently manufacture the following types of steam turbines:

Regular steam turbines - these turbines are designed to make maximum use of the steam, with any waste steam vented into the atmosphere through cooling towers.

Co-generation steam turbines - these turbines are designed to provide for the use of “waste steam” by a nearby industrial plant (such as a paper or chemical plant).

Steam turbine production is characterized by low unit volume with high unit revenue and margins. While it is difficult to generalize, a 100 megawatt steam turbine costs approximately \$6 million and takes three to six months to build.

Water turbines, on the other hand, bear a stronger resemblance (in manufacture) to our traditional industrial blowers. A water turbine resembles a blower operating in reverse, powered by water rather than air. Given this similarity, we began production of water turbines in our existing facilities and in shared facilities before our new turbine manufacturing facility was completed.

A typical ten megawatt water turbine costs approximately \$450,000 and takes three to four months to construct.

The design and manufacturing of steam and water turbines require a high degree of engineering skill. We maintain a close relationship with Beijing 3-D, a high tech enterprise co-sponsored by the Chinese Academy of Sciences, for the purpose of developing new designs and manufacturing technology for the power generation equipment manufacturing industry in China. Beijing 3-D has developed world-class 3-dimensional CAD tools for use in the design of steam and water turbines. We anticipate obtaining rights to this technology in exchange for payment of a sales royalty on turbines utilizing the technology, although no formal agreement is currently in place. We believe this technology gives us significant advantages in providing our customers with the highest quality turbines, tailored precisely to their needs. Through its use, we believe we are able to:

- increase steam generator thermal efficiency;
- reduce coal consumption; and
- increase megawatt output.

As a result, we believe that we compete effectively in the turbine market. We also help provide for China's need for cleaner and more efficient electric power production.

#### Development of Our Steam and Water Turbine Business

On January 9, 2007, Wuhan Blower completed the formation of Wuhan Generating. To develop the Company's turbine business, Wuhan Blower reached an understanding with China Chang Jiang Energy Corporation ("China Chang Jiang"), which owns Wuhan Turbine Works, a manufacturer of energy turbines for power plants. China Chang Jiang agreed to allow us to assume the operations of Wuhan Turbine Works related to the manufacture of steam turbines up to 300 megawatts and water turbines up to 200 megawatts. To this end, Wuhan Generating hired a number of the management team members from Wuhan Turbine Works. These former Wuhan Turbine Works management team members and a limited number of Wuhan Turbine Works skilled laborers helped Wuhan Generating launch its turbine

operations in 2007. Wuhan Generating recruited 180 employees in 2010, and upon the installation of all the customized equipment in our turbine manufacturing facility, Wuhan Generating expects to hire approximately 60 additional employees to assist with turbine manufacturing.

We utilized a management strategy for Wuhan Generating that is similar to the one we used for Wuhan Blower during its first two years: management and employee restructuring, movement to a new facility (on our existing premises) and an intense focus on research and development.



We have constructed a turbine manufacturing facility adjacent to our blower manufacturing facilities. We manufacture turbines at our turbine facility and at the shared facilities. We have purchased additional customized equipment for our turbine manufacturing facility and will install this equipment in order to increase our production capacity as we receive additional turbine orders from our customers. We have spent approximately \$29.9 million on the turbine plant and related equipment.

In addition, we have constructed an administrative building for the turbine manufacturing facility, which is located adjacent to the turbine manufacturing facility. The administrative building will be used by personnel in turbine supplies and sales and for other administrative tasks. Construction on the administrative building began in June 2006 and was completed in December 2007. We are currently conducting turbine sales from our blower administrative building. As our turbine sales and profitability grow, we will complete the interior of our turbine administrative building and transfer our current and future turbine administrative staff to this new building.

In July 2007, we entered into a contract for approximately \$26.37 million with Jiangsu Huangli Paper Industry Co., Ltd. (“Jiangsu Huangli”) to build a thermal electric power plant with four boiler furnaces and two turbine generator groups in Jiangyin, Jiangsu. The construction of the power plant was completed in 2010 and facility inspections and verifications are currently being undertaken. We expect that the facility inspections will be completed in the second quarter of 2012.

## **Our Market**

The market for blowers, steam turbines and water turbines in China is directly driven by the growth in the country’s overall demand for electricity and the now mandated requirement for electrical generating equipment that is both more fuel efficient and less polluting. According to the Energy Information Administration, China currently has the second greatest amount of installed electrical capacity of any nation, trailing only the United States. China’s total installed electricity generating capacity in 2011 was approximately 4,600 gigawatts according to the China Bureau of Statistics. According to the People’s Daily Online, the Chinese government made the increase in installed capacity a major part of the 10<sup>th</sup> (2005) and 11<sup>th</sup> (2010) Five Year Plans. According to RNCOS, an industry research firm, China will consume around 16% of the world’s energy by 2020.

China’s electrical capacity is installed not only in centralized major power production plants, but also often on the premises of major industrial facilities. The on-site production of power allows a company to avoid brownouts or complete loss of service. In this manner, many companies have insulated themselves from the short-fall in overall capacity.

## **Distribution Methods**

In our industrial blower and turbine businesses, we receive proposals and contracts mostly through referrals and competitive bidding. We have a marketing and sales team that provides support and consultation to our customers. We mainly market our products to steel companies, power plants, chemical companies, paper mills and hydroelectric power plants. We also collaborate with major system integrators to jointly develop and market new products. We have a well established sales team and a close involvement with major research institutes and design firms across China. We work jointly with these institutions to develop and customize products for the specific needs of our customers. We believe this interactive working relationship with customers has allowed us to win repeat business, increase visibility and enhance our growth.

We are still developing our relatively new blower and turbine parts and machinery equipment business. Currently, this business primarily manufactures products for use by our industrial blower and turbine businesses. Thus far, this business has utilized referrals and competitive bidding to secure orders from third parties. This business also has been working with our blower and turbine sales staff to market its products.

## **Our Customers**

In our blower manufacturing business, we currently have a base of over 420 customers. Our turbine manufacturing business has approximately 65 customers. Our industrial parts and machinery equipment business has approximately 75 customers, not including Wuhan Blower and Wuhan Generating.

## **Raw Materials and Supplies**

The principal raw materials used in the manufacture of our products are rolled steel and iron. We believe these materials are widely available from multiple sources, though we primarily obtain them from three suppliers: Wuhan Iron and Steel Group, Wuhan Pingwu Material Co. and Wuhan new DaLai materials Co., LTD

## **Research and Development**

We believe that our research and development (“R&D”) facilities are among the most advanced in the industry. Our R&D department operates out of a facility at our Wuhan campus. Our relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of China Science Academy allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics. We have a sophisticated acoustics lab in our facility, which we share with our university partners and which the China Fan Performance Test Center uses for some of its work. During 2011, R&D expense was approximately 1% of sales and we expect R&D expense to be approximately 1.2% of 2012 sales in order to increase our marketing competitiveness. We try to offset these costs by decreasing production costs of our products.

## **Our Competition**

We believe that there are currently approximately 2,200 blower and fan manufactures in China, but that most of these are small and do not have the R&D and manufacturing resources that we do. We compete mainly with six large scale manufacturers. We believe that there are currently approximately 300 turbine manufactures in China, but that most of these are small and do not have the R&D and manufacturing resources that we do. We believe there are approximately five significant manufacturers of steam and water turbines with whom we compete. In both our blower and turbine businesses, we compete primarily on the basis of reputation, price, quality, engineering, timeliness and post-purchase services.

## **Regulation**

We do not face any significant government regulation of our businesses or in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all corporations in China.

## **Our Employees**

As of March 31, 2012, we employed approximately 810 full-time employees.

Each of Wuhan Blower, Wuhan Generating and Wuhan Sungreen has a trade union that protects employees' rights, aims to assist in the fulfillment of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between us and union members. This type of union is typical in the PRC and is not similar to American or European labor unions. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting employees for our operations.

As required by applicable Chinese law, we have entered into employment contracts with all of our officers, managers and employees.

Our employees in the PRC participate in a state pension scheme organized by Chinese municipal and provincial governments. In addition, as required by PRC law, we provide employees in the PRC with various types of social insurance, including medical insurance, unemployment insurance and occupational injury insurance.

#### **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 April 5, 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.

**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 1B. Unresolved Staff Comments.**

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### **Item 2. Properties.**

Wuhan Blower and Wuhan Generating are located on a shared campus in the Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone in the southernmost part of Wuhan, Hubei Province, People’s Republic of China, where we have easy access to the railroads, waterways and roads necessary for the transportation of our products and where we operate in a new facility in a campus-like setting. We hold a long term lease on this property with a land area of approximately 1,400,000 square feet with approximately 440,000 square feet of administration and factory space, which is used to produce blowers and turbines. We finished constructing the turbine manufacturing facility in 2009, which occupies an additional 215,482 square feet, and the exterior of an administrative building that will facilitate the orders and sales of turbines. The new administrative building will house the business operations of Wuhan Generating and will provide an additional 134,656 square feet.

We also hold a long term lease on a property with a land area of approximately 792,547 square feet used by Wuhan Sungreen to produce industrial parts and machinery equipment. Wuhan Sungreen has constructed two workshops and an administrative building on this property.

We have sales offices in the following cities:

Xi’an;

. Guangzhou;  
. Shanghai;  
. Beijing;  
. Chongqing; and  
. Nanjing.

**Item 3. Legal Proceedings.**

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

#### Item 4. Mine Safety Disclosures

Not Applicable.

## PART II

#### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following table sets forth the high and low closing prices for our common stock on the NASDAQ Capital Market for each full quarterly period for the last two completed fiscal years.

|                     | Low    | High   |
|---------------------|--------|--------|
| First Quarter 2010  | \$1.90 | \$2.40 |
| Second Quarter 2010 | \$1.06 | \$1.86 |
| Third Quarter 2010  | \$1.07 | \$1.39 |
| Fourth Quarter 2010 | \$1.10 | \$1.48 |
| First Quarter 2011  | \$1.00 | \$1.37 |
| Second Quarter 2011 | \$0.40 | \$1.03 |
| Third Quarter 2011  | \$0.32 | \$0.57 |
| Fourth Quarter 2011 | \$0.28 | \$0.50 |

#### Holder

As of April 5, 2012, there were approximately 145 holders of record of our common stock which does not include persons whose stock is held in nominee or "street name" accounts through brokers, banks and intermediaries.

#### Dividends

We have not declared or paid any cash dividends on our common stock during the last four fiscal years. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then existing conditions, including our financial

condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that the Board of Directors considers relevant.

The holders of our Series A Preferred Stock are entitled to receive, out of legally available assets, dividends at the rate of 5% per annum, which accrue quarterly. Dividends on the Series A Preferred Stock, which are payable in cash or registered shares of common stock, are cumulative and are prior and in preference to payment of any dividend or distribution on any junior stock, including our Series B Preferred Stock and common stock. So long as any shares of our Series A Preferred Stock are outstanding, we cannot pay any dividend or make any distribution on any junior stock.

### **Equity Compensation Plan Information**

We maintain the 2007 Stock Option Plan (the “Plan”) pursuant to which we may grant options to purchase shares of common stock to eligible persons. The following table sets forth summary information regarding options granted and outstanding under equity compensation plans approved and not approved by the Company’s stockholders. The following table provides information about option awards under the Plan as of December 31, 2011.



|   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under the Plan (excluding securities reflected in first column) |
|---|---|---|--|
| Equity compensation plans previously approved by security holders | 240,000   | \$ 3.82   | 2,760,000  |
| Equity compensation plans not approved by security holders        | -   | -   | -  |
| Total   | 240,000   | \$ 3.82   | 2,760,000  |

#### Item 6. Selected Financial Data.

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

##### Overview

The Company is a holding company that conducts its operations through three indirect operating subsidiaries: Wuhan Blower, Wuhan Generating and Wuhan Sungreen, each a company operating in China. UFG, a wholly owned subsidiary of the Company, owns 100% of the capital stock of Wuhan Blower, which in turn owns 100% of the capital stock of Wuhan Generating and Wuhan Sungreen.

The information and data contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results and financial condition for the years ended December 31, 2011 and 2010.

Unless otherwise indicated, information presented in this Annual Report on Form 10-K 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 for information related to the business we have classified as discontinued operations, which include the business conducted by Wuhan Sungreen.

***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

*Sales.* Sales increased \$17.19 million, or 15.58%, to \$127.50 million in 2011 from \$110.31 million in 2010. The increase in sales was attributable to the General and Blow economic recovery in 2011 as compared to 2010.

*Cost of Sales.* Our cost of sales increased \$13.73 million, or 16.35%, to \$97.68 million in 2011 from \$83.95 million in 2010. This increase was primarily attributable to our increase in sales. As a percentage of sales, the cost of sales was 76.61% for 2011 compared to 76.10% for 2010. This increase was due to inflation of the overall cost of production.

*Gross Profit.* Our gross profit increased \$3.46 million, or 13.14%, to \$29.83 million in 2011 from \$26.36 million in 2010. Gross profit as a percentage of sales was 23.39% in 2011 compared to 23.90% in 2010.

*Selling Expenses.* Our selling expenses in 2011 decreased \$118,204 or 7.76%, to approximately \$1.40 million from approximately \$1.52 million in 2010. As a percentage of sales, selling expenses were 1.10% in 2011 compared to 1.38% in 2010. This decrease as a percentage of sales was primarily attributable to a decrease in the payment of sales commissions in 2011 as a result of slower collection rates with respect to our accounts receivable and lower gross margins.

*General and Administrative Expenses.* Our general and administrative expenses increased approximately \$6.65 million, or 56.50%, to \$18.41 million in 2011 from approximately \$11.76 million in 2010. As a percentage of sales, general and administrative expenses were 14.44 % in 2011 compared to 10.66% in 2010. This increase as a percentage of sales was primarily attributable to (i) consultancy fee incurred in connection with the Bank Loan Agreement and VAT; (ii) additional write offs of bad debt; and (iii) discounting cost for the notes.

*Warranty Expense.* Our warranty expense increased to \$558,278 in 2011 from \$541,533 in 2010. As a percentage of sales, warranty expense was 0.44% in 2011, compared to 0.49% in 2010.

*Operating Income.* Our operating income decreased \$3.08 million, or 24.58%, to \$9.45 million in 2011 from \$12.54 million in 2010. As a percentage of sales, operating income was 7.42% in 2011 compared to 11.36% in 2010. This decrease as a percentage of sales was primarily attributable to our increased general & administrative expenses mentioned above.

*Interest Income.* Our interest income increased to \$250,912 in 2011 from \$178,053 in 2010. This increase was primarily due to our increase in bank deposits during 2011.

*Other Income (Expenses).* Our other income decreased to \$152,787 in 2011 from \$511,223 in 2010. As a percentage of sales, other income was 0.12% in 2011 compared to 0.46% in 2010. Our other expenses decreased to \$50,054 in 2011 from \$78,397 in 2010. As a percentage of sales, other expenses was 0.04% in 2011 compared to 0.07% in 2010.

*Interest Expense.* Our interest expense increased to approximately \$7.68 million in 2011 from approximately \$5.31 million in 2010. This increase was due to the significant increase in bridge loans and national interest rise, as well as a significant increase in bank loans. As a percentage of sales, interest expense was 6.02% in 2011 and 4.82% in 2010.

*Income Taxes.* The Company's income tax liability was approximately \$1.61 million in 2011 compared to \$1.30 million in 2010. This increase was due to an increase in taxable income in PRC. For the years ended December 31, 2011 and 2010, Wuhan Blower and Wuhan Generating were subject to a 12.5 % tax rate.

*Net Income.* Our net income decreased \$7,066,283, or 220.38%, to \$3.86 million net loss in 2011 from \$3.21 million in 2010, as a result of the factors described above and a non-cash charge of \$3.46 million in 2010 compared to \$3.10 million in 2010.

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

*Sales.* Sales increased \$17.98 million, or 19.47%, to \$110.31 million in 2010 from \$92.34 million in 2009. The increase in sales was mainly attributable to the general economic recovery in 2010 as compared to 2009.

*Cost of Sales.* Our cost of sales increased \$14.84 million, or 21.47%, to \$83.95 million in 2010 from \$69.11 million in 2009. This increase was primarily attributable to our increase in sales. As a percentage of sales, the cost of sales was 76.10% for 2010 compared to 74.85% for 2009. This increase was due to inflation of the overall cost of production.

*Gross Profit.* Our gross profit increased \$3.14 million, or 13.50%, to \$26.36 million in 2010 from \$23.23 million in 2009. Gross profit as a percentage of sales was 23.90% in 2010 compared to 25.15% in 2009.

*Selling Expenses.* Our selling expenses in 2010 decreased \$26,486 or 1.71%, to approximately \$1.52 million from approximately \$1.55 million in 2009. As a percentage of sales, selling expenses were 1.38% in 2010 compared to 1.68% in 2009. This decrease as a percentage of sales was primarily attributable to a decrease in the payment of sales commissions in 2010 as a result of slower collection rates with respect to our accounts receivable and lower gross margins.

*General and Administrative Expenses.* Our general and administrative expenses increased approximately \$4.95 million, or 72.61%, to \$11.76 million in 2010 from approximately \$6.81 million in 2009. As a percentage of sales, general and administrative expenses were 10.66 % in 2010 compared to 7.38% in 2009. This increase as a percentage of sales was primarily attributable to (i) an arrangement fee incurred in connection with the establishment of the Standard Chartered Loan agreement; (ii) legal fees, auditor fees and a management and consultancy fee incurred in connection with the early termination of the Standard Chartered Loan Agreement; and (iii) additional write offs of bad debt.

*Warranty Expense.* Our warranty expense increased to \$541,533 in 2010 from \$371,764 in 2009. As a percentage of sales, warranty expense was 0.49% in 2010, compared to 0.40% in 2009.

*Operating Income.* Our operating income decreased \$1.96 million, or 13.49%, to \$12.54 million in 2010 from \$14.49 million in 2009. As a percentage of sales, operating income was 11.36% in 2010 compared to 15.69% in 2009. This decrease as a percentage of sales was primarily attributable to our increased general & administrative expenses mentioned above.

*Interest Income.* Our interest income decreased to \$178,053 in 2010 from \$341,071 in 2009. This decrease was primarily due to our decrease in bank deposits during 2010.

*Other Income (Expenses).* Our other income increased to \$511,223 in 2010 from \$226,798 in 2009. As a percentage of sales, other income was 0.46% in 2010 compared to 0.25% in 2009. Our other expenses increased to \$78,397 in 2010

from \$22,491 in 2009. As a percentage of sales, other expenses was 0.07% in 2010 compared to 0.02% in 2009.

*Interest Expense.* Our interest expense increased to approximately \$5.31 million in 2010 from approximately \$3.12 million in 2009. This increase was due to the significant increase in bridge loans, related interest expenses and a one-time financing consultancy fee in connection with the Company's loan agreement with Standard Chartered Bank, as well as a significant increase in bank loans. As a percentage of sales, interest expense was 4.82% in 2010 and 3.38% in 2009.

*Income Taxes.* The Company's income tax liability was approximately \$1.30 million in 2010 compared to \$1.66 million in 2009. This decrease was due to a decrease in taxable income in PRC. For the years ended December 31, 2010 and 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate.

*Net Income.* Our net income decreased \$5.26 million, or 62.11%, to \$3.21 million in 2010 from \$8.46 million in 2009, as a result of the factors described above and a non-cash charge of \$3.10 million in 2010 compared to \$1.15 million in 2009.

## **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 December 31, 2011, we had cash and cash equivalents of \$71.48 million, including restricted cash of \$13.95 million. Our cash at December 31, 2011 included \$22.31 million that we received from our new loan facility from Agricultural Bank of China, Wuhan Branch (“Agricultural Bank”). To date, we have funded our ongoing construction projects.

As discussed above, in 2011, our sales increased 15.58% compared to 2010. The collection of our accounts receivable and other receivables is important to solidifying our liquidity position. Although we are still experiencing some payment delays, we continue to focus on the collection of accounts receivable. Our accounts receivable ratio decreased to 150 days at December 31, 2011, compared to 169 days at December 31, 2010. Our working capital for the year ended December 31, 2011 was sufficient primarily due to our continuing efforts to collect on our accounts receivable and the additional funding we obtained from the Agricultural Bank loan facility.

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 50% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 10% due upon signing and 40% due upon delivery. Our customers are generally required to pay us an additional 40% 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. Due to the global economic crisis, some customers have not strictly adhered to the contractual payment terms. This 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 five percent 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 \$49.49 million to \$56.57 million from December 31, 2010 to December 31, 2011. The allowance for bad debt provided in accordance with the Company's accounting policy was \$4.47 million at December 31, 2011. The Company applied a rate of 5% on outstanding accounts receivable, which results in an ending balance of \$2.98 million. Because the number of days that sales were outstanding decreased in 2011 when compared to 2010, the Company made an assessment of its outstanding receivables and provided a specific write off during the year in the amount of \$4.10 million to reflect actual unrecoverable amounts. Although the Company's results of operations were adversely impacted by the global economic slowdown in the first half of 2010, the Company experienced a recovery in 2011 and it believes that its customers will continue to make payments on their outstanding balances.



We have employed additional resources in collecting on outstanding accounts receivable and have aligned more closely sales commissions with the collection on sales. The accounts receivable balance increased by \$7.10 million, since sales increased \$17.19 million, or 15.58%, to \$127.50 million in 2011 from \$110.31 million in 2010. We will continue to pursue collection strategy to improve our operating cash flow.

At December 31, 2011, we had \$18.49 million in other receivables, which is an increase of approximately \$16.27 million compared to the balance at December 31, 2010.

We also had advances to suppliers of \$25.18 million at December 31, 2011, which decreased by \$35.43 million compared to the balance at December 31, 2010. The decrease was mainly due to the fact that we do not need to place a deposit in advance for some suppliers as we have long standing relationships with them and they give us the maximum discount.

We had inventory turnover of 8.43 times for the year ended December 31, 2011. We calculate inventory turnover as sales divided by average inventory. Inventory increased \$4.19 million in raw materials, \$892,531 in work in progress and decreased \$1.65 million in finished goods for the year ended December 31, 2011. The raw materials increase resulted from the Company's increase in sales.

Net cash used by operating activities for 2011 was approximately \$8.57 million, as compared to approximately \$8.57 million sourced in 2010. This change was primarily due to collections from customers with a shortened collection period, but partially offset by an increase in interest and tax payments.

Net cash sourced in investing activities in 2011 was approximately \$6.89 million, as compared to approximately \$31.69 million used in 2010. This change was mainly a result of an decrease in restricted cash and deposit.

Net cash sourced by financing activities in 2011 was approximately \$26.38 million, as compared to approximately \$46.15 million sourced in 2010. This change was primarily due to the decrease in bank loans and notes.

We intend to expend a significant amount of capital to make deposits for performance bonds 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 December 31, 2011, we had bank loans and debt from other non-bank entities totaling approximately \$120.02 million (based on an exchange rate of 6.3647 RMB per 1 U.S. dollar). Information regarding these loans and notes is set forth below in U.S. dollars.

## Continuing Operations

| Subsidiary   | Type       | Name of Lender  | Due Date   | Interest Rate Per Annum |  | At December 31, 2011 | At December 31, 2010 |
|--------------|------------|---|------------|-------------------------|--|----------------------|----------------------|
| Short-term   |            |   |            |                         |  |                      |                      |
| Wuhan Blower | Bank Loans | Hankou Bank   | 7/13/2012  | 5.47 %                  |  | \$1,571,166          | \$-                  |
| Wuhan Blower | Bank Loans | Hankou Bank   | 10/14/2012 | 5.47 %                  |  | 1,571,166            | -                    |
| Wuhan Blower | Bank Loans | Hankou Bank   | 6/29/2011  | 5.31 %                  |  | -                    | 19,298,829           |
| Wuhan Blower | Bank Loans | Hankou Bank   | 7/27/2011  | 5.31 %                  |  | -                    | 6,049,790            |
| Wuhan Blower | Bank Loans | Hankou Bank   | 9/30/2011  | 5.31 %                  |  | -                    | 756,224              |
| Wuhan Blower | Bank Loans | Hankou Bank   | 10/11/2011 | 5.31 %                  |  | -                    | 2,268,671            |
| Wuhan Blower | Bank Loans | Gansu Trust Co., Ltd.                                 | 12/15/2012 | 8.53 %                  |  | 10,998,162           | -                    |
| Wuhan Blower | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 1/8/2012   | 9.60 %                  |  | 3,927,915            | -                    |
| Wuhan Blower | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2012  | 18.00 %                 |  | 1,571,166            | -                    |
| Wuhan Blower | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2011  | 18.00 %                 |  | -                    | 1,512,447            |
| Wuhan Blower | Bank Loans | Wuhan Min Ze Investment Co., Ltd.                     | 12/1/2012  | 0.00 %                  |  | 3,739,375            | -                    |
| Wuhan Blower | Bank Loans | Wuhan Rui Sheng Feng Investment Co., Ltd.             | 4/8/2011   | 9.60 %                  |  | -                    | 2,268,671            |
| Wuhan Blower | Bank Loans | Wuhan Zhong Jing Petty Loan Co., Ltd.                 | 5/31/2011  | 20.40 %                 |  | -                    | 1,134,336            |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 9/21/2012  | 5.40 %                  |  | 12,883,561           | -                    |
| Wuhan Blower | Bank Loans | China Construction Bank                               | 7/1/2012   | 5.40 %                  |  | 3,299,449            | -                    |

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|                             |      |                            |            |      |   |              |              |              |
|-----------------------------|------|----------------------------|------------|------|---|--------------|--------------|--------------|
| Wuhan Generating Bank Loans | Bank |                            |            |      |   |              |              |              |
| Wuhan Generating Bank Loans | Bank | Hankou Bank                | 6/29/2011  | 5.36 | % |              |              | 4,537,342    |
| Wuhan Generating Bank Loans | Bank | Hankou Bank                | 10/19/2011 | 5.36 | % |              |              | 1,512,447    |
| Wuhan Generating Bank Loans | Bank | Hankou Bank                | 6/13/2012  | 6.56 | % | 4,713,498    |              | -            |
| Wuhan Generating Bank Loans | Bank | Industrial Bank Co., Ltd.  | 4/27/2011  | 6.37 | % |              |              | 9,074,685    |
| Wuhan Generating Bank Loans | Bank | Industrial Bank Co., Ltd.  | 5/19/2012  | 8.30 | % | 7,855,830    |              | -            |
| Wuhan Generating Bank Loans | Bank | Industrial Bank Co., Ltd.  | 6/13/2012  | 8.30 | % | 4,713,498    |              | -            |
| Wuhan Generating Bank Loans | Bank | Industrial Bank Co., Ltd.  | 6/16/2012  | 8.30 | % | 6,284,664    |              | -            |
| Wuhan Generating Bank Loans | Bank | Agricultural Bank of China | 8/19/2011  | 5.35 | % |              |              | 1,512,448    |
| Wuhan Generating Bank Loans | Bank | Agricultural Bank of China | 8/22/2011  | 5.35 | % |              |              | 6,503,524    |
| Wuhan Generating Bank Loans | Bank | Agricultural Bank of China | 8/26/2011  | 5.35 | % |              |              | 1,209,958    |
| Wuhan Generating Bank Loans | Bank | Agricultural Bank of China | 6/15/2012  | 6.63 | % | 6,756,014    |              | -            |
| Wuhan Generating Bank Loans | Bank | Agricultural Bank of China | 7/14/2012  | 6.89 | % | 2,670,982    |              | -            |
| Wuhan Generating Bank Loans | Bank | Shenzhen Development Bank  | 6/2/2012   | 7.57 | % | 4,713,498    |              | -            |
| Wuhan Generating Bank Loans | Bank | Shenzhen Development Bank  | 3/12/2012  | 6.10 | % | 3,142,331    |              | -            |
| Total                       |      |                            |            |      |   | <b>Total</b> | \$80,412,274 | \$57,639,372 |

**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               | 4/17/2012 | - | 4,713,498            | -                   |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 6/8/2012  | - | 11,312,395           | -                   |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,224             |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,223             |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,224             |
| 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 Generating                             | Notes Payable | Hankou Bank               | 6/19/2012 | - | 7,227,364            | -                   |
| Wuhan Generating                             | Notes Payable | Hankou Bank               | 4/12/2011 | - | -                    | 1,512,447           |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/8/2011  | - | -                    | 3,024,895           |
| Wuhan Generating                             | Notes Payable | Hankou Bank               | 4/20/2011 | - | -                    | 1,512,448           |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011  | - | -                    | 3,024,895           |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011  | - | -                    | 3,024,895           |
| <b>Total</b>                                 |               |                           |           |   | <b>\$33,554,059</b>  | <b>\$14,368,251</b> |
| <b>Total Short Term Bank Loans and Notes</b> |               |                           |           |   | <b>\$113,966,333</b> | <b>\$72,007,623</b> |

**Long-term**

|                  |            |                            |            |       |           |             |
|------------------|------------|----------------------------|------------|-------|-----------|-------------|
| Wuhan Blower     | Bank Loans | China Construction Bank    | 7/1/2012   | 5.40% | \$-       | \$3,176,140 |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China | 9/21/2012  | 5.40% | -         | 12,402,069  |
| Wuhan Generating | Bank Loans | Hankou Bank                | 9/30/2013  | 6.65% | 4,556,380 | 4,537,342   |
| Wuhan Generating | Bank Loans | Hankou Bank                | 10/11/2013 | 6.65% | 1,492,609 | 1,512,448   |

***Total Long Term Bank Loans and Notes*** **\$6,048,989** **\$21,627,999**

We plan to either repay this debt as it matures or refinance this debt with other debt.

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.

The loan from Gansu Trust Co., Ltd. was guaranteed by Hubei Di Long Industrial Group's mortgage of real property in 2011.

The loan from China Minsheng Banking Corp., Ltd. is not secured with collateral.

The loan from Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. was secure by Jie Xu, machines and equipment of Wuhan Sungreen and Wuhan Generating.

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

Wuhan Generating's loan from Industrial Bank Co., Ltd. is secured by the Company's equipment and guaranteed by Jie Xu, Hongsheng Xu, Wuhan Blower, and Wuhan Sungreen.

Wuhan Generating's loan from Shenzhen Development Bank is guaranteed by Jie Xu, Hongsheng Xu (son of Jie Xu), and Wuhan Blower.

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 December 31, 2011, there were no bank loans or notes associated with the discontinued operations.

The foregoing is only a summary of the agreements and is qualified by the exact terms of the Loan Facility Agreement, the Loan Agreements and the Financial Consulting Service Agreements, which were filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5, 10.6 and 10.7 to our Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on October 22, 2010.

### **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 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 years. 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<br>years |
| Trademark          | 20<br>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 December 31, 2011 and 2010, 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                           | December 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------|
| Year-end RMB: US\$ exchange rate         | 6.3647            | 6.61180           |
| Average 12 month RMB: US\$ exchange rate | 6.4735            | 6.77875           |

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



*Income Taxes*

The Company uses the accrual method of accounting to determine 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, the PRC government has established a set of transition rules to allow enterprises that already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the year ended December 31, 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<br>Over | Of Amount<br>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, 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.

### *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 above.

*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.

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.

*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 7A. Quantitative and Qualitative Disclosures About Market Risk.**

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

**Item 8. Financial Statements and Supplementary Data.**

The financial statements required by Item 8 are included on pages F-1 to F- 37 immediately following the signature page. As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide supplementary financial data.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Disclosure Controls and Procedures**

As required by Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based upon this evaluation as of December 31, 2011, our Chief Executive Officer and Chief Financial 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 is described below.

**Internal Control over Financial Reporting**

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

includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
  
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and



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

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

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this evaluation, management used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, we concluded that we had material weaknesses in our internal control over financial reporting as of December 31, 2011. The following is a description of each deficiency or weakness with respect to our internal control over financial reporting identified in connection with the management evaluation and the remediation initiatives that we have implemented or intend to implement in the near future.

1) The internal audit department of the Company lacks sufficient resources to effectively perform its roles in connection with its accounting oversight and risk assessment functions.

*Remediation Initiative*

We plan to increase the resources available to our internal audit department in order to improve the performance and accuracy of our internal audits. Specifically, we plan to hire more staff for the internal audit department to make sure that the department has enough resources to effectively perform its role within the Company. The department will take direction from, and report directly to, the Chairman of the Audit Committee.

2) Wuhan Generating does not have a written Code of Conduct or any other corporate policy guidelines that are or have been made available to its employees.

*Remediation Initiative*

Wuhan Generating will establish a written Code of Conduct and other key corporate policy guidelines. These written policies will be maintained in our human resources department and made available to employees through the use of employee handbooks.

3) The human resources organizational chart for Wuhan Blower has not been updated to reflect changes to personnel and duties. An updated organizational chart is needed to ensure that employees perform assigned tasks efficiently.

*Remediation Initiative*

Our human resource department will update the organizational chart in order to ensure the duties of each position are clearly stated.

4) The current accounting staff lacks sufficient depth, skill and experience with U.S. GAAP reporting.

*Remediation Initiative*

We are seeking additional accountants experienced in several key areas of accounting, including persons with experience in U.S. GAAP and SEC financial reporting requirements. We will continue to provide training to our accounting staff regarding U.S. GAAP reconciliation and disclosures in financial reports.

5) The financial reporting and treasury functions of the Company are currently being performed by the same department and need to be segregated in order to ensure that each function receives the proper level of attention and supervision required.

*Remediation Initiative*

The Company is in the process of hiring additional, senior management level staff to assist in the oversight of the Company's accounting and financial reporting functions. We expect that the Company's accounting and financial reporting responsibilities will be separated from its treasury functions as soon as the appropriate management team member has been hired.

6) The policies and procedures regarding the proper handling of scrap materials are not well documented and are not uniformly implemented or enforced. Also, the policies and procedures regarding the warehouse for work in progress and the corresponding books and records for the work in progress are not uniformly documented which may cause material misstatements of the inventory of Wuhan Blower and Wuhan Generating.

*Remediation Initiative*

Wuhan Blower and Wuhan Generating will establish written policies that carefully describe the Company's policies and procedures with respect to the handling of scrap materials. Each company's financial department will be responsible for updating these policies and monitoring compliance therewith. Further, we intend to enhance our system of record keeping for work in progress and establish an additional warehouse recording system.

7) The financial departments of Wuhan Blower and Wuhan Generating have not closed the respective books and records of those companies in a manner such that they may be relied upon as complete and accurate records. Also, the Company cashier has not properly kept signed records of cash counting and bank reconciliations. Furthermore, the

monthly reviews of the Company's financial statements have not been properly signed and documented by the appropriate supervising manager.

*Remediation Initiative*

We plan to establish a more formal procedure with respect to the closing of books to ensure the completeness and timeliness of records. We will also expand and enhance the role of our financial managers' supervision to monitor compliance with these controls and procedures.

8) Wuhan Blower and Wuhan Generating do not systematically maintain records of their new and existing customers. This prevents the Company from properly managing its client relations and accounts.

*Remediation Initiative*

We plan to create a comprehensive customer evaluation form and a document retention policy to ensure that customer information is maintained and updated in a secure database. The evaluation form will allow the Company to collect information on its customers, including information on the customer's business background and credit worthiness.

9) Wuhan Blower does not maintain records of its business with its customers. This prevents the Company from effectively managing its customer accounts.

*Remediation Initiative*

We are implementing an account statement record system that will maintain documented records of customer orders, deliveries and account balances. This will allow the Company to better manage its customer accounts going forward including accounts receivable.

10) The responsibilities for the preparation of vouchers and entry review of fixed asset accounting entries are not segregated. Also, the verification records of additional assets may not be provided for counter checking for invoices and acquisition requests.

*Remediation Initiative*

We plan to segregate the responsibilities of voucher preparation and entry review to maintain better controls in these two areas. We also intend to strengthen our information technology systems to better assist in the maintenance of these controls. The internal audit department will be primarily responsible for carrying out these reviews and ensuring the accuracy and correctness of the entries.

Because material weaknesses exist, management concluded that the Company's internal control over financial reporting as of December 31, 2011 was not effective.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

### **Changes in Internal Control over Financial Reporting**

During the quarter ended December 31, 2011, 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.

### **Item 9B. Other Information.**

None.

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## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Stockholders in the sections entitled “Election of Directors,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” and is incorporated by reference.

### **Item 11. Executive Compensation.**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Stockholders in the section entitled “Executive and Director Compensation” and is incorporated by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Stockholders in the section entitled “Security Ownership of Certain Beneficial Owners and Management” and is incorporated by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Stockholders in the sections entitled “Related Party Transactions” and “Corporate Governance” and is incorporated by reference.

### **Item 14. Principal Accountant Fees and Services.**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Stockholders in the section entitled “Auditor Fees” and is incorporated by reference.

## Part IV

### Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

#### 1. Financial Statements

#### INDEX TO FINANCIAL STATEMENTS

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## 2. Financial Statement Schedules

None.

## 3. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Articles of Incorporation (incorporated herein by reference to Exhibit 3i.1 to our Form 8-K filed on November 1, 2006)  |
| 3.2         | Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on March 9, 2007)   |
| 3.3         | Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on September 11, 2008)  |
| 3.4         | Amended and Restated Bylaws (as amended through March 8, 2007) (incorporated herein by reference to Exhibit 3.2 to our Form 8-K filed on March 9, 2007)   |
| 4.1         | Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock of the Company, dated February 7, 2007, including the Certificate of Correction filed on February 12, 2007 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on February 13, 2007) |
| 4.2         | Certificate of Designation of the Relative Rights and Preferences of the Series B Convertible Preferred Stock of the Company, dated September 4, 2008 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on September 11, 2008)   |
| 4.3         | Form of Series A Warrant (incorporated herein by reference to Exhibit 4.2 to our Form 8-K filed on February 13, 2007)   |
| 10.1†       | Employment Agreement between the Company and Carol Pan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed on Feb 2, 2012)  |
| 14.1        | Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to our Form 8-K filed on March 14, 2008)  |
| 21.1        | Subsidiaries of the Registrant  |
| 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.  |

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- 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 and Chief Financial 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(1)
- 101.SCH\* XBRL Taxonomy Extension Schema Document(1)
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document(1)

101.DEF\* XBRL Taxonomy Extension Definitions Linkbase Document(1)  
101.LAB\* XBRL Taxonomy Extension Label Linkbase Document(1)  
101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document(1)

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† Management contract, compensatory plan or arrangement.

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

\* Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

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

WUHAN GENERAL GROUP (CHINA), INC.

Date: April 6, 2012 By: /s/ Qi Ruilong  
 Name: Qi Ruilong  
 Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

| Signatures                           | Title  | Date          |
|--------------------------------------|--|---------------|
| /s/ Qi Ruilong<br>Qi Ruilong         | President, Chief Executive<br>Officer and Director (principal executive officer) | April 6, 2012 |
| /s/ Carol Pan<br>Carol Pan           | Principle Accounting Officer<br>(principal financial and<br>accounting officer)  | April 6, 2012 |
| /s/ Xu Jie<br>Xu Jie                 | Chairman of the Board of<br>Directors  | April 6, 2012 |
| /s/ Huang Zhaoqi<br>Huang Zhaoqi     | Director   | April 6, 2012 |
| /s/ Brian Lin<br>Brian Lin           | Director   | April 6, 2012 |
| /s/ Shi Yu<br>Shi Yu                 | Director   | April 6, 2012 |
| /s/ Zheng Qingsong<br>Zheng Qingsong | Director   | April 6, 2012 |

Wuhan General Group (China), Inc.

Consolidated Financial Statements

**December 31, 2011 and 2010**

**(Stated in US Dollars)**

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 audited the accompanying consolidated balance sheets of Wuhan General Group (China), Inc. (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wuhan General Group (China), Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

San Mateo, California Samuel H. Wong & Co., LLP  
March 26, 2012 Certified Public Accountants

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**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of December 31, 2011 and 2010****(Stated in US Dollars)**

|   | Note         | At<br>December 31,<br>2011 | At<br>December 31,<br>2010 |
|---|--------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                 |              |                            |                            |
| Current Assets                                |              |                            |                            |
| Cash  | 2(e)         | \$ 57,522,050              | \$ 26,856,317              |
| Restricted Cash                               | 3            | 13,953,294                 | 30,599,958                 |
| Notes Receivable                              | 4            | -                          | 251,066                    |
| Accounts Receivable                           | 2(f),5       | 56,567,722                 | 49,485,978                 |
| Other Receivable                              |              | 18,487,992                 | 16,269,293                 |
| Related Party Receivable                      | 23           | 7,041,613                  | -                          |
| Inventory                                     | 2(g),6       | 13,300,792                 | 9,867,301                  |
| Advances to Suppliers                         |              | 25,184,728                 | 35,433,751                 |
| Advances to Employees                         | 7            | 30,158                     | 322,205                    |
| Prepaid Expenses                              |              | 7,041                      | 517                        |
| Prepaid Taxes                                 |              | 41,210                     | 1,351                      |
| Deferred Tax Asset                            |              | 1,238,831                  | 1,192,532                  |
| Current assets held for sale                  | 2(bb),<br>21 | 2,223,395                  | 1,756,460                  |
| Total Current Assets                          |              | 195,598,826                | 172,036,729                |
| Non-Current Assets                            |              |                            |                            |
| Real Property Available for Sale              |              | -                          | 1,140,718                  |
| Property, Plant & Equipment, <i>net</i>       | 2(h),8       | 29,591,719                 | 30,617,120                 |
| Land Use Rights, <i>net</i>                   | 2(j),9       | 1,976,326                  | 1,945,678                  |
| Construction in Progress                      | 10           | 15,031,490                 | 12,371,309                 |
| Deposits                                      |              | 5,555,926                  | -                          |
| Intangible Assets, <i>net</i>                 | 2(i),11      | 145,041                    | 179,837                    |
| Long-term assets held for sale                | 2(bb),<br>21 | 24,672,213                 | 24,215,927                 |
| Total Assets                                  |              | \$ 272,571,541             | \$ 242,507,318             |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> |              |                            |                            |
| Liabilities                                   |              |                            |                            |
| Current Liabilities                           |              |                            |                            |
| Bank Loans & Notes                            | 12           | \$ 113,966,333             | \$ 72,007,623              |
| Accounts Payable                              |              | 5,478,580                  | 9,619,808                  |
| Taxes Payable                                 |              | 10,841,233                 | 10,459,789                 |



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|  |              |                       |                       |
|--|--------------|-----------------------|-----------------------|
| Other Payable  |              | 5,035,021             | 4,123,669             |
| Dividend Payable   |              | 1,454,257             | 727,129               |
| Accrued Liabilities                                      | 13           | 3,593,025             | 2,885,931             |
| Customer Deposits  |              | 7,177,771             | 8,005,336             |
| Current liabilities associated with assets held for sale | 2(bb),<br>21 | 1,401,330             | 726,232               |
| <b>Total Current Liabilities</b>                         |              | <b>148,947,550</b>    | <b>108,555,517</b>    |
| <br>   |              |                       |                       |
| Long Term Liabilities                                    |              |                       |                       |
| Bank Loans and Notes                                     | 12           | 6,048,989             | 21,627,999            |
| <b>Total Liabilities</b>                                 |              | <b>\$ 154,996,539</b> | <b>\$ 130,183,516</b> |

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

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**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of December 31, 2011 and 2010****(Stated in US Dollars)**

|  | Note    | At<br>December 31,<br>2011 | At<br>December 31,<br>2010 |
|--|---------|----------------------------|----------------------------|
| <b>STOCKHOLDERS' EQUITY</b>  |         |                            |                            |
| Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized;<br>6,241,453 Shares of Series A Convertible Preferred Stock Issued &<br>Outstanding at December 31, 2011 and 2010 | 14      | \$624                      | \$624                      |
| Additional Paid in Capital - Preferred Stock   |         | 8,170,415                  | 8,170,415                  |
| Additional Paid in Capital – Warrants  |         | 63,171                     | 1,554,635                  |
| Additional Paid in Capital - Beneficial Conversion Feature   |         | 6,371,547                  | 6,371,547                  |
| Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized;<br>6,354,078 Shares of Series B Convertible Preferred Stock Issued &<br>Outstanding at December 31, 2011 and 2010 | 14      | 635                        | 635                        |
| Additional Paid in Capital - Preferred Stock   |         | 12,637,158                 | 12,637,158                 |
| Additional Paid in Capital – Warrants  |         | -                          | 1,244,366                  |
| Additional Paid in Capital - Beneficial Conversion Feature   |         | 4,023,692                  | 4,023,692                  |
| Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized;<br>32,505,000 and 28,327,607 Shares Issued & Outstanding at December 31,<br>2011 and 2010, respectively             | 14      | 3,251                      | 2,833                      |
| Additional Paid in Capital   |         | 42,090,417                 | 35,895,190                 |
| Statutory Reserve  | 2(u),15 | 4,563,592                  | 4,563,592                  |
| Retained Earnings  |         | 21,369,395                 | 25,956,458                 |
| Accumulated Other Comprehensive Income   | 2(v)    | 18,281,105                 | 11,902,657                 |
| Total Stockholders' Equity   |         | 117,575,002                | 112,323,802                |
| Total Liabilities & Stockholders' Equity   |         | \$272,571,541              | \$242,507,318              |

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

**Wuhan General Group (China), Inc.****Consolidated Statements of Income****For the years ended December 31, 2011 and 2010****(Stated in US Dollars)**

|  | Note     | December 31,<br>2011 | December 31,<br>2010 |
|--|----------|----------------------|----------------------|
| Sales  | 2(l)     | \$ 127,502,723       | \$ 110,312,439       |
| Cost of Sales  | 2(m)     | 97,676,431           | 83,949,091           |
| Gross Profit   |          | 29,826,292           | 26,363,348           |
| Operating Expenses                                       |          |                      |                      |
| Selling  | 2(n)     | 1,404,870            | 1,523,074            |
| General & Administrative                                 | 2(p)     | 18,408,231           | 11,762,549           |
| Warranty   | 2(w),13  | 558,278              | 541,533              |
| Total Operating Expenses                                 |          | 20,371,379           | 13,827,156           |
| Operating Income   |          | 9,454,913            | 12,536,192           |
| Other Income (Expenses)                                  |          |                      |                      |
| Other Income   |          | 152,787              | 511,223              |
| Interest Income  |          | 250,912              | 178,053              |
| Other Expenses   |          | (50,054 )            | (78,397 )            |
| Interest Expense   |          | (7,680,872 )         | (5,314,683 )         |
| Expense for warrant recapitalization                     |          | (3,455,260 )         | (3,103,919 )         |
| Total Other Income (Loss) & Expenses                     |          | (10,782,487 )        | (7,807,723 )         |
| Earnings from Continuing Operations before Taxes         |          | (1,327,574 )         | 4,728,469            |
| Income Taxes   | 2(t), 16 | 1,606,043            | 1,301,566            |
| Income from Continuing Operations                        |          | (2,933,617 )         | 3,426,903            |
| Income (Loss) from Discontinued Operations, net of taxes |          | (926,318 )           | (220,555 )           |
| Net Income   |          | \$(3,859,935 )       | \$3,206,348          |
| Preferred Dividends Declared                             |          | 727,128              | 727,129              |
| Income Available to Common Stockholders                  |          | \$(4,587,063 )       | \$2,479,219          |
| Earnings Per Share                                       | 17       |                      |                      |
| Basic-Net Income/(Loss)                                  |          | \$(0.14 )            | \$0.10               |
| - Income from Continuing Operations                      |          | (0.11 )              | 0.11                 |
| - Loss from Discontinued Operations                      |          | (0.03 )              | (0.01 )              |
| Diluted- Net Income/(Loss)                               |          | (0.14 )              | 0.10                 |
| - Income from Continuing Operations                      |          | (0.11 )              | 0.11                 |
| - Loss from Discontinued Operations                      |          | \$(0.03 )            | \$(0.01 )            |
| Weighted Average Shares Outstanding                      |          |                      |                      |

|         |            |            |
|---------|------------|------------|
| Basic   | 32,264,657 | 25,531,305 |
| Diluted | 32,264,657 | 31,885,383 |

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

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**Wuhan General Group (China), Inc.****Consolidated Statements of Stockholders' Equity****As of December 31, 2011 and 2010****(Stated in US Dollars)**

|  | Series A<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Amount | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>A, J, C<br>Warrants<br>Additional<br>Paid in<br>Capital | Beneficial<br>Conversion<br>Feature<br>Additional<br>Paid in<br>Capital | Series B<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Amount | Series B<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>B, JJ<br>Warrants<br>Additional<br>Paid in<br>Capital |
|--|--|--------|--|---|---|--|--------|--|---|
| Balance,<br>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   |
| Stock Option<br>Compensation                             | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Recapitalization<br>of Warrants                          | -  | -      | -  | (1,491,464)   | -   | -  | -      | -  | (1,244,366)   |
| Expense related<br>to<br>recapitalization<br>of warrants | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Net Income   | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Preferred<br>Dividends                                   | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Declared<br>Appropriations<br>of Retained<br>Earnings    | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Foreign<br>Currency<br>Translation<br>Adjustment         | -  | -      | -  | -   | -   | -  | -      | -  | -   |
| Balance,<br>December 31,<br>2011                         | 6,241,453  | \$624  | \$8,170,415  | \$63,171  | \$6,371,547   | 6,354,078  | \$635  | \$12,637,158   | -   |

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

**Wuhan General Group (China), Inc.****Consolidated Statements of Stockholders' Equity****As of December 31, 2011 and 2010****(Stated in US Dollars)**

|   | Series A<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>A, J, C<br>Warrants<br>Additional<br>Paid in<br>Capital | Beneficial<br>Conversion<br>Feature<br>Additional<br>Paid in<br>Capital | Series B<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series B<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series B<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>B, JJ<br>Warrants<br>Additional<br>Paid in<br>Capital |
|---|--|--|--|---|---|--|--|--|---|
| Balance,<br>January 1, 2010   | 6,241,453  | \$624  | \$8,170,415  | \$3,484,011   | \$6,371,547   | 6,354,078  | \$635  | \$12,637,158   | \$2,274,181   |
| Stock Option<br>Compensation  | -  | -  | -  | -   | -   | -  | -  | -  | -   |
| Recapitalization<br>of Warrants<br>Expense related<br>to<br>recapitalization<br>of warrants | -  | -  | -  | (1,929,376)   | -   | -  | -  | -  | (1,029,815)   |
| Net Income  | -  | -  | -  | -   | -   | -  | -  | -  | -   |
| Preferred<br>Dividends<br>Declared  | -  | -  | -  | -   | -   | -  | -  | -  | -   |
| Appropriations<br>of Retained<br>Earnings   | -  | -  | -  | -   | -   | -  | -  | -  | -   |
| Foreign<br>Currency<br>Translation<br>Adjustment  | -  | -  | -  | -   | -   | -  | -  | -  | -   |
| Balance,<br>December 31,<br>2010  | 6,241,453  | \$624  | \$8,170,415  | \$1,554,635   | \$6,371,547   | 6,354,078  | \$635  | \$12,637,158   | \$1,244,366   |

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

**Wuhan General Group (China), Inc.****Consolidated Statements of Cash Flows****For the years ended December 31, 2011 and 2010****(Stated in US Dollars)**

|  | 12 months<br>ended<br>December 31,<br>2011 | 12 months<br>ended<br>December 31,<br>2010 |
|--|--|--|
| <b>Cash Flow from Operating Activities</b>   |  |  |
| Cash Received from Customers   | \$ 110,616,623                             | \$ 106,198,578                             |
| Cash Paid to Suppliers & Employees   | (108,008,073)                              | (92,974,336 )                              |
| Interest Received  | 251,120                                    | 178,060                                    |
| Interest Paid  | (7,680,872 )                               | (5,314,683 )                               |
| Taxes Paid   | (4,130,333 )                               | (563,826 )                                 |
| Miscellaneous Receipts   | 153,043                                    | 513,604                                    |
| Cash Provided by operating activities – continuing operations  | (8,798,492 )                               | 8,037,397                                  |
| Cash Provided by operating activities – discontinued operations  | 232,067                                    | 531,029                                    |
| Cash Sourced/(Used) in Operating Activities  | (8,566,425 )                               | 8,568,426                                  |
| <b>Cash Flows from Investing Activities</b>  |  |  |
| Cash Released/(Invested in) Restricted Time Deposits   | 16,646,665                                 | (22,839,987 )                              |
| Proceeds from withdraw of Short Term Investment Fund   | 1,140,718                                  | -  |
| Payments for Purchases and Construction of Plant & Equipment   | (5,158,888 )                               | (8,285,290 )                               |
| Payments for Deposits  | (5,510,403 )                               | (15,124 )                                  |
| Cash Used in investing activities – continuing operations  | 7,118,092                                  | (31,140,401 )                              |
| Cash Used in investing activities – discontinued operations  | (231,278 )                                 | (546,066 )                                 |
| Cash Sourced/(Used) in Investing Activities  | 6,886,814                                  | (31,686,467 )                              |
| <b>Cash Flows from Financing Activities</b>  |  |  |
| Net proceeds from Bank Loans and Notes   | 26,379,700                                 | 47,221,808                                 |
| Dividends Paid   | -  | (727,129 )                                 |
| Cash provided by financing activities – continuing operations  | 26,379,700                                 | 46,494,679                                 |
| Cash provided by financing activities – discontinued operations  | -  | (344,439 )                                 |
| Cash Sourced/(Used) in Financing Activities  | 26,379,700                                 | 46,150,240                                 |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents for the Period – continuing operations</b>   | <b>24,699,300</b>                          | <b>23,391,675</b>                          |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents for the Period – discontinued operations</b> | <b>789</b>                                 | <b>(359,476 )</b>                          |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents for the Period</b>                           | <b>24,700,089</b>                          | <b>23,032,199</b>                          |
| <b>Effect of Currency Translation – continuing operations</b>  | <b>5,966,433</b>                           | <b>3,093,750</b>                           |

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|  |              |              |
|--|--------------|--------------|
| Effect of Currency Translation – discontinued operations                 | (115,560 )   | 459,246      |
|  | 5,850,873    | 3,552,995    |
| Cash & Cash Equivalents at Beginning of Period - continuing operations   | 26,856,317   | 370,892      |
| Cash & Cash Equivalents at Beginning of Period - discontinued operations | 136,272      | 36,502       |
|  | 26,992,589   | 407,394      |
| Cash & Cash Equivalents at End of Period - continuing operations         | 57,522,050   | 26,856,317   |
| Cash & Cash Equivalents at End of Period - discontinued operations       | 21,501       | 136,272      |
| Cash & Cash Equivalents at End of Period                                 | \$57,543,551 | \$26,992,589 |

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

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**Wuhan General Group (China), Inc.****Reconciliation of Net Income to Cash Flow Sourced / (Used) in Operating Activities****For the years ended December 31, 2011 and 2010****(Stated in US Dollars)**

|   | 12 months<br>ended<br>December 31,<br>2011 | 12 months<br>ended<br>December 31,<br>2010 |
|---|--|--|
| Net Income  | \$ (3,859,935 )                            | \$ 3,206,348                               |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided by / <Used in> Operating Activities : |  |  |
| Stock Penalties   | -  | -  |
| Stock Compensation  | -  | 38,382                                     |
| Expense for warrant recapitalization  | 3,459,815                                  | 3,103,919                                  |
| Amortization  | 459,208                                    | 400,043                                    |
| Depreciation  | 3,326,094                                  | 2,623,082                                  |
| Decrease/(Increase) in Notes Receivable   | 237,994                                    | (237,670 )                                 |
| Decrease/(Increase) in Accounts Receivable  | (7,087,023 )                               | 4,257,483                                  |
| Decrease/(Increase) in Other Receivable   | (2,474,199 )                               | (11,606,602 )                              |
| Decrease/(Increase) in Related Party Receivable   | (7,113,375 )                               | -  |
| Decrease/(Increase) in Inventory  | (3,814,861 )                               | 4,691,087                                  |
| Decrease/(Increase) in Advances to Suppliers  | 10,120,166                                 | (10,825,245 )                              |
| Decrease/(Increase) in Advances to Employees  | 292,047                                    | 20,624                                     |
| Decrease/(Increase) in Prepaid Expenses   | (15,288 )                                  | 926,062                                    |
| Decrease/(Increase) in Prepaid Taxes  | (39,859 )                                  | 544,699                                    |
| Decrease/(Increase) in Deferred Tax Asset   | 236,600                                    | (726,399 )                                 |
| Increase/(Decrease) in Accounts Payable   | (4,062,549 )                               | 1,694,460                                  |
| Increase/(Decrease) in Taxes Payable  | 420,312                                    | 7,331,147                                  |
| Increase/(Decrease) in Other Payable  | 1,507,933                                  | 393,355                                    |
| Increase/(Decrease) in Accrued Liabilities  | 707,094                                    | (638,457 )                                 |
| Increase/(Decrease) in Customer Deposits  | (866,599 )                                 | 3,372,108                                  |
| Total of all adjustments  | (4,706,490 )                               | 5,362,078                                  |
| Net Cash Provided by Operating Activities   | \$ (8,566,425 )                            | \$ 8,568,426                               |

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

**As of December 31, 2011 and 2010**

**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 December 31, 2011 and 2010**

**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 December 31, 2011 and 2010**

**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<br>years |
| Trademark          | 20<br>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 September 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

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

**As of December 31, 2011 and 2010**

**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.

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

**As of December 31, 2011 and 2010**

**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                          | December 31,<br>2011 | December 31,<br>2010 | December 31,<br>2009 |
|---|----------------------|----------------------|----------------------|
| Period end RMB : US\$ exchange rate     | 6.3647               | 6.6118               | 6.8372               |
| Average period RMB : US\$ exchange rate | 6.4735               | 6.7788               | 6.8409               |

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 December 31, 2011 and 2010****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 December 31, 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, 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.

*(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 13 – Warranty Liability.

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

**As of December 31, 2011 and 2010**

**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 17 – 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 December 31, 2011 and 2010****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 21 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 credit facilities, which are comprised of loans and notes payables, in addition to other collateral.

**4. NOTES RECEIVABLE**

| As of December 31, 2011 | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------|--------------------------|----------------------------|
| Notes Receivable        | \$ -                     | \$ 28,196                  |



|                                      |      |      |
|--------------------------------------|------|------|
| <u>Less:</u> Allowance for Bad Debts | -    | -    |
|                                      | \$ - | \$ - |

| As of December 31, 2011              | Continuing<br>Operations | Discontinued<br>Operations |
|--------------------------------------|--------------------------|----------------------------|
| Notes Receivable                     | \$ 251,066               | \$ 15,124                  |
| <u>Less:</u> Allowance for Bad Debts | -                        | -                          |
|                                      | \$ 251,066               | \$ 15,124                  |

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 December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****5. ACCOUNTS RECEIVABLE**

| As of December 31, 2011             | Continuing<br>Operations | Discontinued<br>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 )    |

| As of December 31, 2010             | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------------------|--------------------------|----------------------------|
| Total Accounts Receivable-Trade     | \$52,090,503             | \$ 230,253                 |
| <u>Less:</u> Allowance for Bad Debt | (2,604,525 )             | (11,513 )                  |
|                                     | \$49,485,978             | \$ 218,740                 |

Allowance for Bad Debts

|                                   |                |              |
|-----------------------------------|----------------|--------------|
| Beginning Balance                 | \$(2,831,131 ) | \$ (8,985 )  |
| Allowance Provided                | (4,423,656 )   | (2,528 )     |
| Reversal                          | -              | -            |
| <u>Less:</u> Bad Debt Written Off | 4,650,262      | -            |
| Ending Balance                    | \$(2,604,525 ) | \$ (11,513 ) |

**6. INVENTORY**

| As of December 31, 2011 | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------|--------------------------|----------------------------|
|-------------------------|--------------------------|----------------------------|

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|                  |              |              |
|------------------|--------------|--------------|
| 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 |

| As of December 31, 2010 | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------|--------------------------|----------------------------|
| Raw Materials           | \$5,469,632              | \$348,202                  |
| Work in Progress        | 517,300                  | 361,423                    |
| Finished Goods          | 3,880,369                | 362,457                    |
|                         | \$9,867,301              | \$ 1,072,082               |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****7. ADVANCES TO EMPLOYEES**

Advances to Employees of \$30,158 and \$322,205 as of December 31, 2011 and 2010, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

**8. PROPERTY, PLANT AND EQUIPMENT**

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

| As of December 31, 2011               | Wuhan<br>Blower | Wuhan<br>Generating | Other<br>Subsidiaries | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---------------------------------------|-----------------|---------------------|-----------------------|-----------------------------------|-------------------------------------|
| Category of Asset                     |                 |                     |                       |                                   |                                     |
| 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> |                 |                     |                       |                                   |                                     |
| 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                        |

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| As of December 31, 2010               | Wuhan<br>Blower | Wuhan<br>Generating | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---------------------------------------|-----------------|---------------------|-----------------------------------|-------------------------------------|
| Category of Asset                     |                 |                     |                                   |                                     |
| Buildings                             | \$14,071,788    | \$8,989,251         | \$23,061,039                      | \$-                                 |
| Machinery & Equipment                 | 2,023,674       | 12,907,608          | 14,931,282                        | 2,090,150                           |
| Furniture & Fixtures                  | 391,080         | 29,107              | 420,187                           | 8,715                               |
| Auto                                  | 766,557         | 252,710             | 1,019,267                         | 15,088                              |
| Other                                 | 77,185          | -                   | 77,185                            | -                                   |
|                                       | 17,330,284      | 22,178,676          | 39,508,960                        | 2,113,954                           |
| <i>Less: Accumulated Depreciation</i> |                 |                     |                                   |                                     |
| Buildings                             | (2,774,599 )    | (455,532 )          | (3,230,131 )                      | -                                   |
| Machinery & Equipment                 | (1,024,876 )    | (3,612,816 )        | (4,637,692 )                      | (393,816 )                          |
| Furniture & Fixtures                  | (320,101 )      | (9,396 )            | (329,497 )                        | (3,449 )                            |
| Auto                                  | (579,450 )      | (78,998 )           | (658,448 )                        | (3,109 )                            |
| Other                                 | (36,072 )       | -                   | (36,072 )                         | -                                   |
|                                       | (4,735,098 )    | (4,156,742 )        | (8,891,840 )                      | (400,374 )                          |
| Property, Plant, & Equipment, Net     | \$12,595,186    | \$18,021,934        | \$30,617,120                      | \$1,713,580                         |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)**

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:

|                  | 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**

| As of December 31, 2011               | Wuhan       | Wuhan      | Total       | Total        |
|---------------------------------------|-------------|------------|-------------|--------------|
| Category of Asset                     | Blower      | Generating | Continuing  | Discontinued |
|                                       |             |            | Operations  | Operations   |
| 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 |

| At December 31, 2010 | Total | Total |
|----------------------|-------|-------|
|----------------------|-------|-------|

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| Category of Asset                     | Wuhan Blower      | Wuhan Generating | Continuing Operations | Discontinued Operations |
|---------------------------------------|-------------------|------------------|-----------------------|-------------------------|
| Land Use Rights                       | \$2,274,350       | \$ -             | \$2,274,350           | \$10,857,754            |
| <i>Less: Accumulated Amortization</i> | <i>(328,672 )</i> | <i>-</i>         | <i>(328,672 )</i>     | <i>(649,387 )</i>       |
| Land Use Rights, <i>Net</i>           | \$1,945,678       | \$ -             | \$1,945,678           | \$10,208,367            |

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.

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****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. 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 December 31, 2011 and 2010:-

| December 31,<br><b>2011</b> |                          | Total      | <b>Total</b> |
|-----------------------------|--------------------------|------------|--------------|
| Subsidiary                  | Description              | Continuing | Discontinued |
|                             |                          | 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     | -            |



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|                  |                                  |              |              |
|------------------|----------------------------------|--------------|--------------|
| 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 |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)**

| December 31,<br><b>2010</b> |                                  | Total<br>Continuing<br>Operations | <b>Total</b><br>Discontinued<br>Operations |
|-----------------------------|----------------------------------|-----------------------------------|--|
| Subsidiary                  | Description                      |                                   |  |
| Wuhan Blower                | Dormitory                        | \$7,562                           | \$-  |
| Wuhan Blower                | Testing Facility                 | 907                               | -  |
| Wuhan Blower                | Badminton Courts                 | 24,955                            | -  |
| Wuhan Blower                | Technological Remodeling         | 431,442                           | -  |
| Wuhan Generating            | Capitalized Interest             | 34,373                            | -  |
| Wuhan Generating            | Equipment Requiring Installation | 5,897,878                         | -  |
| Wuhan Generating            | Generating Workshop              | 5,974,192                         | -  |
| Wuhan Sungreen              | Landscaping                      | -                                 | 151,266                                    |
| Wuhan Sungreen              | Workshop                         | -                                 | 5,016,504                                  |
| Wuhan Sungreen              | Office Building                  | -                                 | 6,052,372                                  |
| Wuhan Sungreen              | Utility Systems Setup            | -                                 | 1,058,713                                  |
|                             |                                  | \$12,371,309                      | \$12,278,855                               |

**11. INTANGIBLE ASSETS**

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

| Category of Asset                     | At<br>December<br>31,<br>2011 | At<br><b>December</b><br><b>31,</b><br>2010 |
|---------------------------------------|-------------------------------|---|
| Trademarks                            | \$113,910                     | \$109,653                                   |
| Mitsubishi License                    | 325,373                       | 313,213                                     |
| Tianyu CAD License                    | 4,252                         | 4,093                                       |
| Sunway CAD License                    | 13,130                        | 17,393                                      |
| Microsoft License                     | 18,068                        | 12,639                                      |
|                                       | 474,733                       | 456,991                                     |
| <u>Less:</u> Accumulated Amortization |                               |   |
| Trademarks                            | (78,165 )                     | (69,761 )                                   |
| Mitsubishi License                    | (229,287)                     | (189,397)                                   |

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|                               |            |            |
|-------------------------------|------------|------------|
| Tianyu CAD License            | (3,306 )   | (2,773 )   |
| Sunway CAD License            | (11,116 )  | (5,787 )   |
| Microsoft License             | (7,818 )   | (9,436 )   |
|                               | (329,692)  | (277,154)  |
| Intangible Assets, <i>Net</i> | \$ 145,041 | \$ 179,837 |

The weighted average amortization period for the Company's intangible assets at December 31, 2011 and 2010 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.

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****12. BANK LOANS AND NOTES**

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at December 31, 2011 and December 31, 2010 for the Company's bank loans and notes payable.

## Continuing Operations

| Subsidiary        | Type       | Name of Lender  | Due Date   | Interest<br>Rate<br>Per<br>Annum | At<br>December 31,<br>2011 | At<br>December 31,<br>2010 |
|-------------------|------------|---|------------|----------------------------------|----------------------------|----------------------------|
| <b>Short-term</b> |            |   |            |                                  |                            |                            |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 7/13/2012  | 5.47 %                           | \$ 1,571,166               | \$ -                       |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 10/14/2012 | 5.47 %                           | 1,571,166                  | -                          |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 6/29/2011  | 5.31 %                           | -                          | 19,298,829                 |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 7/27/2011  | 5.31 %                           | -                          | 6,049,790                  |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 9/30/2011  | 5.31 %                           | -                          | 756,224                    |
| Wuhan Blower      | Bank Loans | Hankou Bank   | 10/11/2011 | 5.31 %                           | -                          | 2,268,671                  |
| Wuhan Blower      | Bank Loans | Gansu Trust Co., Ltd.                                 | 12/15/2012 | 8.53 %                           | 10,998,162                 | -                          |
| Wuhan Blower      | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 1/8/2012   | 9.60 %                           | 3,927,915                  | -                          |
| Wuhan Blower      | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2012  | 18.00 %                          | 1,571,166                  | -                          |
| Wuhan Blower      | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2011  | 18.00 %                          | -                          | 1,512,447                  |
| Wuhan Blower      | Bank Loans | Wuhan Min Ze Investment Co., Ltd.                     | 12/1/2012  | 0.00 %                           | 3,739,375                  | -                          |
| Wuhan Blower      | Bank Loans | Wuhan Rui Sheng Feng Investment Co., Ltd.             | 4/8/2011   | 9.60 %                           | -                          | 2,268,671                  |

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|                  |            |                                       |            |              |   |                      |                      |
|------------------|------------|---------------------------------------|------------|--------------|---|----------------------|----------------------|
| Wuhan Blower     | Bank Loans | Wuhan Zhong Jing Petty Loan Co., Ltd. | 5/31/2011  | 20.40        | % | -                    | 1,134,336            |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China            | 9/21/2012  | 5.40         | % | 12,883,561           | -                    |
| Wuhan Blower     | Bank Loans | China Construction Bank               | 7/1/2012   | 5.40         | % | 3,299,449            | -                    |
| Wuhan Generating | Bank Loans | Hankou Bank                           | 6/29/2011  | 5.36         | % |                      | 4,537,342            |
| Wuhan Generating | Bank Loans | Hankou Bank                           | 10/19/2011 | 5.36         | % |                      | 1,512,447            |
| Wuhan Generating | Bank Loans | Hankou Bank                           | 6/13/2012  | 6.56         | % | 4,713,498            | -                    |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.             | 4/27/2011  | 6.37         | % |                      | 9,074,685            |
| 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            | 8/19/2011  | 5.35         | % |                      | 1,512,448            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China            | 8/22/2011  | 5.35         | % |                      | 6,503,524            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China            | 8/26/2011  | 5.35         | % |                      | 1,209,958            |
| 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         | % | 2,670,982            | -                    |
| 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            | -                    |
| Total            |            |                                       |            | <b>Total</b> |   | <b>\$ 80,412,274</b> | <b>\$ 57,639,372</b> |

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****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               | 4/17/2012 | - | 4,713,498            | -                    |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 6/8/2012  | - | 11,312,395           | -                    |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,224              |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,223              |
| Wuhan Blower                                 | Notes Payable | Hankou Bank               | 4/13/2011 | - | -                    | 756,224              |
| 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 Generating                             | Notes Payable | Hankou Bank               | 6/19/2012 | - | 7,227,364            | -                    |
| Wuhan Generating                             | Notes Payable | Hankou Bank               | 4/12/2011 | - | -                    | 1,512,447            |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/8/2011  | - | -                    | 3,024,895            |
| Wuhan Generating                             | Notes Payable | Hankou Bank               | 4/20/2011 | - | -                    | 1,512,448            |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011  | - | -                    | 3,024,895            |
| Wuhan Generating                             | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011  | - | -                    | 3,024,895            |
| <b>Total</b>                                 |               |                           |           |   | <b>\$33,554,059</b>  | <b>\$ 14,368,251</b> |
| <b>Total Short Term Bank Loans and Notes</b> |               |                           |           |   | <b>\$113,966,333</b> | <b>\$72,007,623</b>  |

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****Long-term**

|                  |            |                            |            |       |           |             |
|------------------|------------|----------------------------|------------|-------|-----------|-------------|
| Wuhan Blower     | Bank Loans | China Construction Bank    | 7/1/2012   | 5.40% | \$-       | \$3,176,140 |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China | 9/21/2012  | 5.40% | -         | 12,402,069  |
| Wuhan Generating | Bank Loans | Hankou Bank                | 9/30/2013  | 6.65% | 4,556,380 | 4,537,342   |
| Wuhan Generating | Bank Loans | Hankou Bank                | 10/11/2013 | 6.65% | 1,492,609 | 1,512,448   |

***Total Long Term Bank Loans and Notes*** **\$6,048,989** **\$21,627,999**

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.

The loan from Gansu Trust Co., Ltd. was guaranteed by Hubei Di Long Industrial Group's mortgage of real property in 2011.

The loan from China Minsheng Banking Corp., Ltd. is not secured with collateral.

The loan from Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. was secure by Jie Xu, machines and equipment of Wuhan Sungreen and Wuhan Generating.

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

Wuhan Generating's loan from Industrial Bank Co., Ltd. is secured by the Company's equipment and guaranteed by Jie Xu, Hongsheng Xu, Wuhan Blower, and Wuhan Sungreen.

Wuhan Generating's loan from Shenzhen Development Bank is guaranteed by Jie Xu, Hongsheng Xu (son of Jie Xu), and Wuhan Blower.

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 December 31, 2011, there were no bank loans or notes associated with the discontinued operations.

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****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 years ended December 31, 2011 and 2010:

|   | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|
| Balance at beginning of period                                      | \$ 1,937,227         | \$ 1,469,358         |
| Accruals for current & pre-existing warranties issued during period | -                    | 541,533              |
| <u>Less:</u> Settlements made during period                         | 38,947               | (73,664 )            |
| <u>Less:</u> Reversals and warranty expirations                     | (963,404 )           | -                    |
| Balance at end of period  | \$ 1,012,771         | \$ 1,937,227         |

There was no outstanding warranty liability for discontinued operations.

**14. CAPITALIZATION**

The Company's outstanding securities at December 31, 2011 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        |
| Series A Warrants                   | 128,755    | 02/07/2007 | 02/06/2012 |
| 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 | 45,469,286 |            |            |

*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.**

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

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*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.**

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**(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.

|  | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| 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        |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****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.

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:

|  | December 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------|
| Income (loss) before taxes:                          |                   |                   |
| US Federal   | \$ (10,473,430    | ) \$ (5,681,700   |
| US State   | -                 | )                 |
| BVI  | (6,081            | ) (2,360          |
| PRC  | 9,151,937         | 10,412,529        |
| Total income before taxes from continuing operations | (1,327,574        | ) 4,728,469       |

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|  |               |   |              |   |
|--|---------------|---|--------------|---|
| Income (Loss) before taxes from discontinued operation | (637,376      | ) | (293,333     | ) |
| Total income before taxes                              | \$ (1,964,950 | ) | \$ 4,435,136 |   |
| Provision for taxes:                                   |               |   |              |   |
| Current:   |               |   |              |   |
| U.S. Federal   | \$ -          |   | \$ -         |   |
| U.S. State   | -             |   | -            |   |
| BVI  | -             |   | -            |   |
| PRC  | 1,606,043     |   | 1,922,215    |   |
| Provision for taxes from continuing operations         | 1,606,043     |   | 1,922,215    |   |
| Provision for taxes from discontinued operations       | -             |   | -            |   |
| Currency effect  | -             |   | -            |   |
|  | \$ 1,606,043  |   | \$ 1,922,215 |   |
| Deferred:  |               |   |              |   |
| U.S. Federal   | \$ -          |   | \$ -         |   |
| U.S. State   | -             |   | -            |   |
| BVI  | -             |   | -            |   |
| PRC  | -             |   | (620,649     | ) |
| Deferred taxes from continuing operations              | -             |   | (620,649     | ) |
| Total provision for taxes from continuing operations   | 1,606,043     |   | 1,301,566    |   |
| Deferred taxes from discontinued operations            | 288,942       |   | (70,986      | ) |
| Currency effect  | -             |   | (1,792       | ) |
| Total provision for taxes from discontinued operations | 288,942       |   | 72,778       |   |
| Total provision for taxes                              | \$ 1,894,985  |   | \$ 1,228,788 |   |
| Effective tax rate                                     | N/A           |   | 27.71        | % |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****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 December 31, 2011 and 2010 are as follows:

|  | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| Deferred tax assets  |                      |                      |
| Beginning balance – continuing operations  | \$ 1,192,532         | \$ 537,876           |
| Current year additions resulting bad debt expense & warranty accrual expense – continuing operations   | -                    | 620,649              |
| Reversals – continuing operations  | -                    | -                    |
| Valuation allowance – continuing operations  | -                    | -                    |
| Foreign currency effect – continuing operations  | 46,299               | 34,007               |
| Ending balance – continuing operations   | 1,238,831            | 1,192,532            |
| Beginning balance – discontinued operations  | 282,898              | 211,155              |
| Current year additions resulting bad debt expense & warranty accrual expense – discontinued operations | -                    | 72,778               |
| Reversals – discontinued operations  | -                    | -                    |
| Valuation allowance – discontinued operations  | (288,942)            | (8,234)              |
| Foreign currency effect – discontinued operations  | 6,044                | 7,199                |
| Ending balance – discontinued operations   | -                    | 282,898              |
| Beginning balance – continuing operations  | \$ 1,192,532         | \$ 537,876           |
| Beginning balance – discontinued operations  | 282,898              | 211,155              |
| Beginning balance  | 1,475,430            | 749,031              |
| Ending balance – continuing operations   | 1,238,831            | 1,192,532            |
| Ending balance – discontinued operations   | -                    | 282,898              |
| Ending balance   | 1,238,831            | 1,475,430            |
| Total deferred tax assets  | 1,238,831            | 1,475,430            |
| Deferred tax liabilities   |                      |                      |
| Total deferred tax liabilities   | -                    | -                    |
| Net deferred tax assets  | \$ 1,238,831         | \$ 1,475,430         |
| Reported as:   |                      |                      |

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|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Current deferred tax assets          | 1,238,831    | 1,475,430    |
| Non-current deferred tax assets      | -            | -            |
| Non-current deferred tax liabilities | -            | -            |
| Net deferred taxes                   | \$ 1,238,831 | \$ 1,475,430 |

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

**As of December 31, 2011 and 2010**

**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 years ended December 31, 2011 and 2010 are shown in the following table:

|  | 12/31/2011 | 12/31/2010 |    |
|--|------------|------------|----|
| U.S. federal statutory income tax rate | N/A        | 34.00      | %  |
| Lower rates in PRC, net                | N/A        | (9.00)     | )% |
| Accruals in foreign jurisdictions      | N/A        | 15.26      | %  |
| Tax holiday                            | N/A        | (12.50)    | )% |
| Effective tax rate                     | N/A        | 27.76      | %  |

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)****17. EARNINGS PER SHARE**

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

|   | 12 months<br>ended<br>December 31,<br>2010 | 12 months<br>ended<br>December 31,<br>2009 |
|---|--|--|
| Basic Earnings Per Share Numerator  |  |  |
| Net Income  | \$ (3,859,935 )                            | \$ 3,206,348                               |
| Income from Continuing Operations   | (2,933,617 )                               | 3,426,903                                  |
| Income (Loss) from Discontinued Operations  | (926,318 )                                 | (220,555 )                                 |
| Less:   |  |  |
| Preferred Dividends   | 727,128                                    | 727,129                                    |
| Series A Constructive Preferred Dividend  | -  | -  |
| Series B Constructive Preferred Dividend  | -  | -  |
| Income Available to Common Stockholders   | (4,587,063 )                               | 2,479,219                                  |
| Income from Continuing Operations Available to Common Stockholders                                | (3,660,745 )                               | 2,699,774                                  |
| Income (Loss) from Discontinued Operations Available to Common Stockholders                       | (926,318 )                                 | (220,555 )                                 |
| Diluted Earnings Per Share Numerator  |  |  |
| Income Available to Common Stockholders   | \$ (4,587,063 )                            | \$ 2,479,219                               |
| Income from Continuing Operations Available to Common Stockholders                                | (3,660,745 )                               | 2,699,774                                  |
| Income (Loss) from Discontinued Operations Available to Common Stockholders                       | (926,318 )                                 | (220,555 )                                 |
| Add:  |  |  |
| Constructive Preferred Dividends  | -  | -  |
| Preferred Dividends   | 727,128                                    | 727,129                                    |
| Income Available to Common Stockholders on Converted Basis  | \$ (3,859,935 )                            | \$ 3,206,348                               |
| Income from Continuing Operations Available to Common Stockholders on<br>Converted Basis          | (2,933,617 )                               | 3,426,903                                  |
| Income (Loss) from Discontinued Operations Available to Common Stockholders on<br>Converted Basis | (926,318 )                                 | (220,555 )                                 |

Original Shares:

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|  |            |            |
|--|------------|------------|
| Additions from Actual Events                                       |            |            |
| - Issuance of Common Stock   | 28,327,607 | 25,351,950 |
| - Conversion of Series A Preferred Stock into Common Stock         | -          | 118,512    |
| - Conversion of Series B Preferred Stock into Common Stock         | -          | 60,843     |
| - Issuance of Common Stock resulting from the Exercise of Warrants | 3,937,050  | -          |
| - Issuance of Penalty Shares                                       | -          | -          |
| Basic Weighted Average Shares Outstanding                          | 32,264,657 | 25,531,305 |
| Dilutive Shares:   |            |            |
| Additions from Potential Events                                    |            |            |
| - Conversion of Series A Preferred Stock*                          | -          | -          |
| - Conversion of Series B Preferred Stock                           | -          | 6,354,078  |
| - Exercise of Investor Warrants & Placement Agent Warrants         | -          | -          |
| - Exercise of Employee & Director Stock Options                    | -          | -          |
| Diluted Weighted Average Shares Outstanding:                       | 32,264,657 | 31,885,383 |
| Earnings Per Share   |            |            |
| Basic-Net Income (Loss)  | \$ (0.14   | ) \$ 0.10  |
| -Income (Loss) from Continuing Operations                          | (0.11      | ) 0.11     |
| -Income (Loss) from Discontinued Operations, net of taxes          | (0.03      | ) (0.01 )  |
| Diluted-Net Income (Loss)  | \$ (0.14   | ) \$ 0.10  |
| -Income (Loss) from Continuing Operations                          | (0.11      | ) 0.11     |
| -Income (Loss) from Discontinued Operations, net of taxes          | (0.03      | ) (0.01 )  |
| Weighted Average Shares Outstanding                                |            |            |
| - Basic  | 32,264,657 | 25,531,305 |
| - Diluted  | 32,264,657 | 31,885,383 |

\* Potentially anti-dilutive

**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****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 years ended December 31, 2011 and 2010, and financial position at December 31, 2011 and 2010. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

| Results of Operations               | Continuing Operations |                  |                           |               | Discontinued                 |
|-------------------------------------|-----------------------|------------------|---------------------------|---------------|------------------------------|
|                                     | Wuhan Blower          | Wuhan Generating | Company, UFG, Adjustments | Total         | Operations<br>Wuhan Sungreen |
| For year ended<br>December 31, 2011 |                       |                  |                           |               |                              |
| Sales                               | \$67,113,353          | \$60,389,370     | \$-                       | \$127,502,723 | \$705,894                    |
| Cost of Sales                       | 51,578,237            | 46,098,194       | -                         | 97,676,431    | 516,033                      |
| Gross Profit                        | 15,535,116            | 14,291,176       | -                         | 29,826,292    | 189,861                      |
| Operating Expenses                  | 8,968,536             | 4,201,209        | 7,201,634                 | 20,371,379    | 679,218                      |
| Other Income (Expenses)             | (3,230,328)           | (4,096,899)      | (3,455,260)               | (10,782,487)  | (148,019)                    |
| Earnings before Taxes               | 3,336,252             | 5,993,068        | (10,656,894)              | (1,327,574)   | (637,376)                    |
| Taxes                               | 505,984               | 1,100,059        | -                         | 1,606,043     | 288,942                      |
| Net Income                          | \$2,830,268           | \$4,893,009      | \$(10,656,894)            | \$(2,933,617) | \$(926,318)                  |
| Financial Position                  | Continuing Operations |                  |                           |               | Discontinued                 |
| At                                  | Company,              |                  |                           |               | Operations                   |

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| December 31, 2011              | Wuhan<br>Blower | Wuhan<br>Generating | UFG,<br>Adjustments | Total         | Wuhan<br>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   | 1,087,096         |
| Total Long Term Liabilities    | -               | 6,048,989           | -                   | 6,048,989     | -                 |
| Total Liabilities              | 88,711,466      | 63,866,898          | 1,016,845           | 153,595,209   | 1,087,096         |
| Net Assets                     | 88,553,922      | 52,932,034          | (49,405,232)        | 92,080,724    | 25,808,512        |
| Total Liabilities & Net Assets | \$177,265,388   | \$116,798,932       | \$(48,388,387)      | \$245,675,933 | \$26,895,608      |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)**

| Results of Operations<br>For the year ended<br>December 31, 2010 | Continuing Operations |                     |                                 |               | Discontinued<br>Operations |
|--|-----------------------|---------------------|---------------------------------|---------------|----------------------------|
|  | Wuhan<br>Blower       | Wuhan<br>Generating | Company,<br>UFG,<br>Adjustments | Total         | Wuhan<br>Sungreen          |
| Sales  | \$61,224,509          | \$49,560,941        | \$(473,011 )                    | \$110,312,439 | \$ 913,564                 |
| Cost of Sales  | 46,647,067            | 37,775,035          | (473,011 )                      | \$83,949,091  | 688,498                    |
| Gross Profit   | 14,577,442            | 11,785,906          | -                               | 26,363,348    | 225,066                    |
| Operating Expenses   | 9,735,401             | 2,852,069           | 4,343,605                       | 16,931,075    | 587,418                    |
| Other Income (Expenses)  | (2,883,616 )          | (479,732 )          | (1,340,456 )                    | (4,703,804 )  | 69,019                     |
| Earnings before Taxes  | 1,958,425             | 8,454,105           | (5,684,061 )                    | 4,728,469     | (293,333 )                 |
| Taxes  | 244,803               | 1,056,763           | -                               | 1,301,566     | (72,778 )                  |
| Net Income   | \$1,713,622           | \$7,397,342         | \$(5,684,061 )                  | \$3,426,903   | \$ (220,555 )              |
| Financial Position<br>At<br>December 31, 2010                    | Continuing Operations |                     |                                 |               | Discontinued<br>Operations |
|  | Wuhan<br>Blower       | Wuhan<br>Generating | Company,<br>UFG,<br>Adjustments | Total         | Wuhan<br>Sungreen          |
| Current Assets   | \$108,416,229         | \$78,574,663        | \$(16,710,623)                  | \$170,280,269 | \$1,756,460                |
| Non Current Assets   | 49,946,631            | 29,928,376          | (33,620,345)                    | 46,254,662    | 24,215,927                 |
| Total Assets   | 158,362,860           | 108,503,039         | (50,330,968)                    | 216,534,931   | 25,972,387                 |
| Current Liabilities  | 60,311,282            | 56,290,083          | (8,772,080 )                    | 107,829,285   | 726,232                    |
| Total Long Term Liabilities                                      | 15,578,209            | 6,049,790           | -                               | 21,627,999    | -                          |
| Total Liabilities  | 75,889,491            | 62,339,873          | (8,772,080 )                    | 129,457,284   | 726,232                    |
| Net Assets   | 82,473,369            | 46,163,166          | (41,558,888)                    | 87,077,647    | 25,246,155                 |
| Total Liabilities & Net Assets                                   | \$158,362,860         | \$108,503,039       | \$(50,330,968)                  | \$216,534,931 | \$25,972,387               |



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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

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.

**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 years ended December 31, 2011 and 2010, the Company recorded \$4,555 and \$38,382 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 December 31, 2011 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 December 31, 2011 and 2010, and the assumptions that were employed in the model:

|  | December<br>31,<br>2011 |   | December<br>31,<br>2010 |   |
|--|-------------------------|---|-------------------------|---|
| Weighted-average fair value of grants: | \$ 0.27                 |   | \$ 0.27                 |   |
| Risk-free interest rate:               | 3.47                    | % | 3.30                    | % |
| Expected volatility:                   | 2.21                    | % | 4.07                    | % |
| Expected life in months:               | 111.00                  |   | 114.00                  |   |

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

**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.

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.

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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<br>For the year ended | 12/31/2011    | 12/31/2010    |
|---|---------------|---------------|
|   | Wuhan         | Wuhan         |
|   | Sungreen      | Sungreen      |
| Sales   | \$ 705,894    | \$ 913,564    |
| Cost of Sales                                 | 516,033       | 688,498       |
| Gross Profit                                  | 189,861       | 225,066       |
| Operating Expenses                            | 679,218       | 587,418       |
| Other Income (Expenses)                       | (148,019 )    | 69,019        |
| Earnings before Taxes                         | (637,376 )    | (293,333 )    |
| Deferred tax expense/(benefit)                | 288,942       | (72,778 )     |
| Net Income (Loss)                             | \$ (926,318 ) | \$ (220,555 ) |

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**Wuhan General Group (China), Inc.****As of December 31, 2011 and 2010****Notes to Financial Statements****(Stated in US Dollars)**

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             | December<br>31, 2011 | December<br>31, 2010 |
|--------------------------------|----------------------|----------------------|
| At                             | Wuhan<br>Sungreen    | Wuhan<br>Sungreen    |
| Current Assets                 | \$2,223,395          | \$1,756,460          |
| Non Current Assets             | 24,672,213           | 24,215,927           |
| Total Assets                   | 26,895,608           | 25,972,387           |
| Current Liabilities            | 1,401,330            | 726,232              |
| Total Long Term Liabilities    | -                    | -                    |
| Total Liabilities              | 1,401,330            | 726,232              |
| Net Assets                     | 25,494,278           | 25,246,155           |
| Total Liabilities & Net Assets | \$26,895,608         | \$25,972,387         |

The tax effects of temporary differences caused the deferred assets/(liabilities) associated with assets held for sale at December 31, 2011 and 2010 are as follows:

|   | 12/31/2011 | 12/31/2010 |
|---|------------|------------|
| Non-current deferred tax assets                 | \$ -       | \$ 291,132 |
| Loss carryover items net of valuation allowance | -          | (8,234 )   |
| Total deferred tax assets                       | -          | 282,898    |
| Non-current deferred tax liabilities            | -          | -          |
| Total deferred tax liabilities                  | -          | -          |
| Net deferred tax assets                         | \$ -       | \$ 282,898 |

**22. RESTRUCTURING EXPENSES**

As a result of the Company's reverse merger on February 7, 2007, the Company increased its capitalization to allow new stock issuances to investors at share premiums which were recognized as additional paid-in capital. The PRC Tax Authority determined such stock transactions derived capital gain assessable to income tax in the amount of \$2,186,883 (i.e. ¥ 14,000,000). The Company's Board of Directors approved the transaction. The tax has been paid and recorded as restructuring expenses included in General and Administrative Expenses in the accompanying Income Statement.

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

**23. RELATED PARTY RECEIVABLE**

The Company's Chairman, Mr. Xu Jie, has procured a loan in the amount of USD \$7.04 million (RMB 50,000,000) from Huaxia Bank. The Company's subsidiary, Wuhan Blower has guaranteed the loan. The loan was due in May of 2011. Mr. Xu Jie was responsible to repay the principal and related interest for the loan. However, Wuhan Blower settled the principal on behalf of Mr. Xu Jie in 2011, which resulted in a related party receivable of \$7,041,613 from Mr. Jie Xu as of December 31, 2011. Mr. Jie Xu fully settled this amount in March of 2012.

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