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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number: 001-34125

WUHAN GENERAL GROUP (CHINA), iNC.

(Exact name of registrant as specified in its charter)

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

organization)

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨

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

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

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

INDEX

		Page
PART I FINANCIAL INFORMATION		1
Item 1.	Financial Statements.	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	49
Item 4.	Controls and Procedures.	49
PART II OTHER INFORMATION		51
Item 1.	Legal Proceedings.	51
Item 1A.	Risk Factors.	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	61
Item 3.	Defaults Upon Senior Securities.	61
Item 4.	Mine Safety Disclosures.	61
Item 5.	Other Information.	61
Item 6.	Exhibits.	62
SIGNATURES		62

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Wuhan General Group (China), Inc.

Consolidated Financial Statements

June 30, 2012 and December 31, 2011

(Stated in US Dollars)

1

Wuhan General Group (China), Inc.

Contents

Contents	Pages
Report of Registered Independent Public Accounting Firm	3
Consolidated Balance Sheets	4 - 5
Consolidated Statements of Income	6
Consolidated Statements of Stockholders' Equity	7 – 8
Consolidated Statements of Cash Flows	9 – 10
Notes to the Financial Statements	11 – 35

Board of Directors and Stockholders

Wuhan General Group (China), Inc.

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated Balance Sheets of Wuhan General Group (China), Inc. (the “Company”) as of June 30, 2012 and December 31, 2011, and the related statements of income, stockholders’ equity, and cash flows for the three months and six months ended June 30, 2012 and 2011. These interim consolidated financial statements are the responsibility of the Company's management.

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

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

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

3

Wuhan General Group (China), Inc.

Consolidated Balance Sheets

As of June 30, 2012 and December 31, 2011

(Stated in US Dollars)

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

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

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

4

Wuhan General Group (China), Inc.

Consolidated Balance Sheets

As of June 30, 2012 and December 31, 2011

(Stated in US Dollars)

	Note	At June 30, 2012	At December 31, 2011
Stockholders' Equity			
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at June 30, 2012 and December 31, 2011	14	$624	$624
Additional Paid in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid in Capital - Warrants		63,171	63,171
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,547
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at June 30, 2012 and December 31, 2011	14	635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 32,505,000 and 28,327,607 Shares Issued & Outstanding at June 30, 2012 and December 31, 2011, respectively	14	3,251	3,251
Additional Paid in Capital		42,090,417	42,090,417
Statutory Reserve	2*(u)*,15	4,563,592	4,563,592
Retained Earnings		22,620,524	21,369,395
Accumulated Other Comprehensive Income	2*(v)*	14,492,252	18,281,105
Total Stockholders' Equity		115,037,278	117,575,002
Total Liabilities & Stockholders' Equity		$313,712,454	$272,571,541

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

5

Wuhan General Group (China), Inc.

Consolidated Statements of Income

For the three and six months ended June 30, 2012 and 2011

(Stated in US Dollars)

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

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

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

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

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity

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

(Stated in US Dollars)

	Series A Convertible Preferred Stock Shares Out-standing	Amount	Series A Preferred Stock Additional Paid in Capital	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out--standing	Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JC Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Comm Stock Share Out- -stand
Balance, January 1, 2012	6,241,453	624	8,170,415	63,171	6,371,547	6,354,078	635	12,637,158	-	4,023,692	32,50
Stock Option Compensation											
Recapitalization of Warrants											
Expense related to recapitalization of warrants											
Net Income											
Preferred Dividends Declared											
Appropriations of Retained Earnings											
Foreign Currency Translation Adjustment											
Balance, June 30, 2012	6,241,453	624	8,170,415	63,171	6,371,547	6,354,078	635	12,637,158	-	4,023,692	32,50

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

7

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity

For the periods ended June 30, 2012 and December 31, 2011 (Stated in US Dollars)

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

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

8

Wuhan General Group (China), Inc.

Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2012 and 2011

(Stated in US Dollars)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash Flows from Operating Activities				
Cash Received from Customers	$20,645,054	$18,968,445	$48,281,190	$45,750,713
Cash Paid to Suppliers & Employees	(13,080,446)	(24,136,911)	(29,306180)	(43,327,856)
Interest Received	24,072	80,404	61,682	89,166
Interest Paid	(1,583,185)	(2,954,483)	(3,436,319)	(4,224,378)
Taxes Paid	(1,662,109)	(685,878)	(2,608,599)	(3,794,166)
Miscellaneous Receipts	512,586	87,777	945,598	138,188
Cash Provided by operating activities – continuing operations	4,855,972	(8,640,646)	13,937,372	(5,368,333)
Cash Provided by operating activities – discontinued operations	-	(105,412)	219,982	(95,289)
Cash Sourced/(Used) in Operating Activities	4,855,972	(8,746,058)	14,157,354	(5,463,622)
Cash Flows from Investing Activities				
Cash Released/(Invested in) Restricted Time Deposits	(16,515,200)	20,814,390	(16,526,321)	6,523,568
Purchase of Short Term Investment Fund or Investment Property	-	986,015	-	986,015
Payments for Purchases and Construction of Plant & Equipment	(628,006)	(3,324,976)	(1,372,827)	(4,227,475)
Payments for Deposits	(972,303)	(7,712)	(1,018,454)	(7,943)
Cash Used in investing activities – continuing operations	(18,115,509)	18,467,717	(18,917,602)	3,274,165
Cash Used in investing activities – discontinued operations	-	58,838	(318,482)	1,219
Cash Sourced/(Used) in Investing Activities	(18,115,509)	18,526,555	(19,236,084)	3,275,384
Cash Flows from Financing Activities				
Proceeds from Bank Loans and Notes	16,801,193	25,598,068	17,022,828	28,138,906
(Repayment of Bank Loans and Notes)	-	-	-	-
Dividends Paid	-	-	-	-
Cash provided by financing activities – continuing operations	16,801,193	25,598,068	17,022,828	28,138,906
Cash provided by financing activities – discontinued operations	-	-	-	-

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

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

9

Wuhan General Group (China), Inc.

Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities

For the three and six months ended June 30, 2012 and 2011

(Stated in US Dollars)

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

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

10

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co., Ltd. ("Zhuhai"). The re-appraisal found that the purchase price of the assets was not materially unfair. Zhuhai concluded that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. However, due to the limitation of insufficient resources and the Company's plan to dispose of Wuhan Sungreen, the Company has ceased any further construction of the workshop and buildings. See also Note 8 – Property, Plant and Equipment, and Note 10 – Construction in Progress.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

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

(b) Consolidation

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

(c) Economic and Political Risks

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

(d) Use of Estimates

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

(e) Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Company maintains bank accounts in the U.S. and the PRC.

(f) Accounts Receivable-Trade

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

(g) Inventory

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

(h) *Property, Plant, and Equipment*

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

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

(i) *Intangible Assets*

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

Technical Licenses	10 years
Trademark	20 years

Annually, the Company reviews the intangible assets for impairment, in accordance with ASC 350 Impairment of Long-Lived Assets. The company considers whether the estimated future benefits of the technical licenses and trademarks will be fully realized over the course of their estimated useful lives. If the technical licenses become obsolete, or trademarks are unsuccessfully defended against infringement by third-parties, the Company will consider future cash flows and relevant factors to quantify the level of impairment and record impairment adjustments accordingly. The Company has not yet recognized any impairment upon the intangible assets.

(j) Land Use Rights

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

(k) Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of June 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

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.

(l) Revenue Recognition

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

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

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

Performance of Construction - Type and Certain Production - Type Contracts."

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

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

(m) Cost of Sales

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

(n) Selling Expenses

Selling expenses are comprised of outbound freight, client entertainment, commissions, depreciation, and travel and lodging expenses.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

(o) Advertising expenses

All advertising costs are expensed as incurred.

(p) General & Administrative Expenses

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

(q) Research and Development

The Company expenses all research and development costs as incurred.

(r) Shipping and Handling

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

(s) Foreign Currency Translation

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

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

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

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

(t) *Income Taxes*

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

Effective January 1, 2009, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2008. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the period ended June 30, 2011, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

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

Taxable Income

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

(u) Statutory Reserve

In accordance with PRC laws, statutory reserve refers to the appropriation from net income, to the account “statutory reserve” to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise’s PRC registered capital. The Company cannot pay dividends out of statutory reserves or paid in capital registered in PRC.

(v) *Other Comprehensive Income*

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

(w) *Warranty Policy*

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

(x) Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock. See also Note 18 – Earnings Per Share.

(y) Financial Instruments

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

(z) Retirement Plan

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

(aa) Recent Accounting Pronouncements

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

(bb) Discontinued Operations

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

3. RESTRICTED CASH

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

4. NOTES RECEIVABLE

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

Less: Allowance for Bad Debts	-	-
	$ 42,724	$ -

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

Notes Receivable are typically in the form of bank drafts from customers. Bank drafts are liquid instruments that can be either (a) endorsed to the Company's vendors, or (b) discounted to the Company's own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they typically mature in the future; therefore, these bank drafts represent different risk and reward characteristics.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

5. ACCOUNTS RECEIVABLE

As of June 30, 2012	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	$64,629,225	$ 220,632
Less: Allowance for Bad Debt	(3,262,690)	(11,031)
	$61,366,535	$ 209,601
Allowance for Bad Debts		
Beginning Balance	$(2,977,248)	$ (11,960)
Allowance Provided	(5,371,689)	(12,045)
Reversal	-	-
Less: Bad Debt Written Off	5,086,247	12,974
Ending Balance	$(3,262,690)	$ (11,031)

As of December 31, 2011	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	$59,544,970	$ 235,978
Less: 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	-	-
Less: Bad Debt Written Off	4,101,429	-
Ending Balance	$(2,977,248)	$ (11,960)

6. INVENTORY

As of June 30, 2012	Continuing Operations	Discontinued Operations

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

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

7. ADVANCES TO EMPLOYEES

Advances to Employees of $66,820 and $30,158 as of June 30, 2012 and December 31, 2011, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

8.PROPERTY, PLANT AND EQUIPMENT

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

As of June 30, 2012				Total	Total
	Wuhan	Wuhan	Other	Continuing	Discontinued
Category of Asset	Blower	Generating	Subsidiaries	Operations	Operations
Buildings	14,985,521	9,404,739	—	24,390,260	13,142,431
Machinery & Equipment	2,121,105	13,613,383	—	15,734,488	1,954,386
Furniture & Fixtures	423,715	33,132	1,433	458,280	63,463
Auto	1,263,793	362,011	—	1,625,804	15,624
Other	650,811	—	—	650,811	—
	19,444,945	23,413,265	1,433	42,859,643	15,175,904
Less: Accumulated Depreciation					
Buildings	(3,948,896)	(721,527)	—	(4,670,422)	
Machinery & Equipment	(1,366,935)	(5,701,072)	—	(7,068,007)	(656,280)
Furniture & Fixtures	(371,867)	(17,585)	(351)	(389,803)	(11,086)
Auto	(748,419)	(162,265)	—	(910,684)	(7,562)
Other	(58,289)	—	—	(58,289)	—
	(6,494,406)	(6,602,449)	(351)	(13,097,206)	(674,928)
Property, Plant, & Equipment, Net	12,950,539	16,810,816	1,082	29,762,437	14,500,976

As of December 31, 2011				Total	Total
	Wuhan	Wuhan	Other	Continuing	Discontinued
Category of Asset	Blower	Generating	Subsidiaries	Operations	Operations
Buildings	14,626,746	9,370,675	-	23,997,421	-
Machinery & Equipment	2,101,219	13,512,971	-	15,614,190	1,829,258
Furniture & Fixtures	415,778	32,698	1,433	449,909	34,837
Auto	1,193,582	359,452	-	1,553,034	15,513
Other	80,181	-	-	80,181	-
	18,417,506	23,275,796	1,433	41,694,735	1,879,608
Less: Accumulated Depreciation					

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

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

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

9. LAND USE RIGHTS

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

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

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

The parcel of land purchased in the asset acquisition and now carried on the books of Wuhan Sungreen totals 792,547 square feet (73,630.05 square meters). The land has been used for Wuhan Sungreen's operations. The land use right will be amortized over 30 years.

10. CONSTRUCTION IN PROGRESS

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

The assets reported under the construction in progress account relate to various projects at the Company's operating subsidiaries. All of the construction projects at Wuhan Blower have been substantially completed.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

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

December 31, **2011**		Total Continuing	**Total** Discontinued

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

22

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

11. INTANGIBLE ASSETS

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

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

The weighted average amortization period for the Company's intangible assets at June 30, 2012 and December 31, 2011 were 12.82 years and 12.82 years, respectively.

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

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

The discontinued operations do not have any intangible assets.

12. BANK LOANS AND NOTES

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

Continuing Operations

Subsidiary	Type	Name of Lender	Due Date	**Interest Rate Per** Annum		**At June 30,** 2012
Short-term						
Wuhan Blower	Bank Loans	Hankou Bank	7/13/2012	5.47	%	1,582,354
Wuhan Blower	Bank Loans	Hankou Bank	10/14/2012	5.47	%	1,582,354
Wuhan Blower	Bank Loans	Gansu Trust Co., Ltd.	12/15/2012	8.53	%	11,076,47
Wuhan Blower	Bank Loans	China Minsheng Banking Corp., Ltd.	1/8/2012	9.60	%	-
Wuhan Blower	Bank Loans	Shenzhen Development Bank	6/3/2013	7.2	%	4,747,061
Wuhan Blower	Bank Loans	Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd.	12/09/2012	18	%	829,153
Wuhan Blower	Bank Loans	Wuhan Min Ze Investment Co., Ltd.	12/1/2012	0.00	%	3,766,002
Wuhan Blower	Bank Loans	Agricultural Bank of China	9/21/2012	5.40	%	7,595,297
Wuhan Blower	Bank Loans	Agricultural Bank of China	6/29/2013	7.2	%	5,380,002
Wuhan Blower	Bank Loans	China Construction Bank	7/1/2012	5.40	%	3,322,943
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2012	6.56	%	-
Wuhan Generating	Bank Loans	Hankou Bank	6/13/2013	8.244	%	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/7/2013	7.872	%	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/11/2013	7.572	%	6,329,414
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572	%	3,164,707
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/14/2013	7.572	%	4,747,061
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	5/19/2012	8.30	%	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/13/2012	8.30	%	-
Wuhan Generating	Bank Loans	Industrial Bank Co., Ltd.	6/16/2012	8.30	%	-
Wuhan Generating	Bank Loans	Agricultural Bank of China	6/15/2012	6.63	%	-
Wuhan Generating	Bank Loans	Agricultural Bank of China	7/14/2012	6.89	%	2,690,001
Wuhan Generating	Bank Loans	Agricultural Bank of China	12/18/2012	7.87	%	3,164,707
Wuhan Generating	Bank Loans	Agricultural Bank of China	5/27/2013	6.15	%	3,639,413
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/2/2012	7.57	%	-
Wuhan Generating	Bank Loans	Shenzhen Development Bank	3/12/2012	6.10	%	-
Wuhan Generating	Bank Loans	Shenzhen Development Bank	6/5/2013	7.38	%	4,747,060
Wuhan Generating	Bank Loans	Wuhan Dong Xi Hu District Wu Yi Petty Loan Co., Ltd.	N/A	N/A		2,373,530
Total						80,231,65

23

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

Notes Payable						
Wuhan Blower	Notes Payable	Hankou Bank	1/11/2012	-	2,670,982	
Wuhan Blower	Notes Payable	Hankou Bank	2/5/2012	-	4,713,498	
Wuhan Blower	Notes Payable	Hankou Bank	4/7/2012	-	4,713,498	
Wuhan Blower	Notes Payable	Hankou Bank	6/8/2012	-	11,312,395	
Wuhan Blower	Notes Payable	Hankou Bank	7/12/2012	-	1,898,824	-
Wuhan Blower	Notes Payable	Hankou Bank	7/13/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/14/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/15/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/16/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	7/17/2012	-	158,235	-
Wuhan Blower	Notes Payable	Hankou Bank	8/6/2012	-	3,955,884	-
Wuhan Blower	Notes Payable	Hankou Bank	8/7/2012	-	791,177	-
Wuhan Blower	Notes Payable	Hankou Bank	10/18/2012	-	3,164,707	-
Wuhan Blower	Notes Payable	Hankou Bank	10/19/2012	-	1,582,354	-
Wuhan Blower	Notes Payable	Hankou Bank	12/7/2012	-	4,747,061	-
Wuhan Blower	Notes Payable	Hankou Bank	12/11/2012	-	3,322,943	-
Wuhan Blower	Notes Payable	Shenzhen Development Bank	1/1/2012	-	-	44
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/2/2012	-	-	45
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/19/2012	-	-	69
Wuhan Blower	Notes Payable	Shenzhen Development Bank	3/12/2012	-	-	18
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/10/2012	-	-	38
Wuhan Blower	Notes Payable	Shenzhen Development Bank	6/12/2012	-	-	53
Wuhan Blower	Notes Payable	Shenzhen Development Bank	2/18/2012	-	-	22
Wuhan Blower	Notes Payable	Shenzhen Development Bank	8/6/2012	-	3,164,707	-
Wuhan Generating	Notes Payable	Hankou Bank	6/19/2012	-	-	7,
Wuhan Generating	Notes Payable	Hankou Bank	7/12/2012	-	316,471	-
Wuhan Generating	Notes Payable	Hankou Bank	12/21/2012	-	5,538,238	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/13/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Industrial Bank Co., Ltd.	10/18/2012	-	7,911,768	-
Wuhan Generating	Notes Payable	Shenzhen Development Bank	12/5/2012	-	1,107,648	-
Total					**$ 46,204,725**	**$ 33**
Total Short Term Bank Loans and Notes					$ 126,436,381	$ 11

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

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

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

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

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

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

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

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

13. WARRANTY LIABILITY

Warranty liability is accrued and carried on the balance sheet as a component of Accrued Liabilities. The Company makes its warranty accrual based on individual assessment of each contract because terms and conditions vary. The Company's typical sales contracts provide for a warranty period of 12-24 months following product installation.

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

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

There was no outstanding warranty liability for discontinued operations.

14. CAPITALIZATION

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

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

Series A Convertible Preferred Stock

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

Series B Convertible Preferred Stock

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

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

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

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

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

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

Warrant Recapitalization

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

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

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

15. Commitments of statutory reserve

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

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

16. INCOME TAXES

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

27

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate income tax rate is 25%. As a business incentive, the Company was approved as a foreign investment enterprise in March 2007, and in accordance with the relevant regulations regarding the favorable tax treatment for a foreign investment enterprise, the Company was entitled to a two-year tax exemption followed by a three-year half exemption. For the years ended December 31, 2008 and 2007, the Company was still within the two year tax exemption period, and accordingly, made no provision for income taxes. For the years ended December 31, 2010 and 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate. The Company expects the tax rates to remain the same in 2011.

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

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

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

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

28

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at June 30, 2012 and December 31, 2011 are as follows:

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

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

29

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

17. EARNINGS PER SHARE

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

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

Diluted Earnings Per Share Numerator

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

* Potentially anti-dilutive

30

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

18. OPERATING SEGMENTS

The Company individually tracks the performance of its three operating subsidiaries: Wuhan Blower, Wuhan Generating, and Wuhan Sungreen. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Wuhan Sungreen is in the business of design, production, and sale of blower silencers, connectors, and other general spare parts for blowers and electrical equipment. Below is a presentation of the Company's results of operations for the six months ended June 30, 2012 and 2011, and financial position at June 30, 2012 and December 31, 2011. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

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

Financial Position	Continuing Operations			Discontinued Operations
At June 30, 2012	Wuhan	Wuhan	Company, UFG,	Wuhan

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

Results of Operations	Continuing Operations				Discontinued Operations
For the six months ended June 30, 2011	Wuhan Blower	Wuhan Generating	Company, UFG, Adjustments	Total	Wuhan Sungreen
Sales	$30,005,579	$29,638,324	$-	59,643,903	$ 401,690
Cost of Sales	22,796,209	20,753,777	-	43,549,985	294,713
Gross Profit	7,209,370	8,884,547	-	16,093,918	106,977
Operating Expenses	3,135,783	2,160,265	674,127	5,970,174	307,674
Other Income (Expenses)	(2,637,861)	(1,407,970)	(3,456,058)	(7,501,889)	2,328
Earnings before Taxes	1,435,727	5,316,312	(4,130,184)	2,621,855	(198,370)
Taxes/(Deferred Tax Benefit)	179,466	664,539	-	844,005	-
Net Income	$1,256,261	$4,651,773	$(4,130,184)	$1,777,850	$ (198,370)

Financial Position	Continuing Operations				Discontinued Operations
At December 31, 2011	Wuhan Blower	Wuhan Generating	Company, UFG, Admin Adjustments	Total	Wuhan Sungreen
Current Assets	127,051,429	79,795,002	(13,471,000)	193,375,431	2,223,395
Non Current Assets	50,213,959	37,003,930	(34,917,387)	52,300,502	24,672,213
Total Assets	177,265,388	116,798,932	(48,388,387)	245,675,933	26,895,608
Current Liabilities	88,711,466	57,817,909	1,016,845	147,546,220	1,401,330
Total Long Term Liabilities	-	6,048,989	-	6,048,989	-
Total Liabilities	88,711,466	63,866,898	1,016,845	153,595,209	1,401,330
Net Assets	88,553,922	52,932,034	(49,405,232)	92,080,724	25,494,278
Total Liabilities & Net Assets	177,265,388	116,798,932	(48,388,387)	245,675,933	26,895,608

The amounts carried in the column for the Company, UFG and adjustments reflect the corporate expenses of the Company and its wholly owned subsidiary, Universe Faith Group Limited, which has no operations and only serves to hold the Company’s operating subsidiaries. The corporate expenses include the costs for professional fees related to corporate matters and compliance efforts. The majority of the costs are directly a result of the Company being a U.S. public company. The Company believes that these costs are not costs which are directly attributable to the operations of our operating segments and thus any allocation of these costs would be discretionary and may misrepresent the performance of the Company’s operating segments. Intercompany eliminations have not been applied to each individual operating segment for the purposes of reporting the results of operations and the financial position of each operating segment. The adjustments represent the eliminations necessary to consolidate the financial statements. See Note 2(*b)* - Consolidation.

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

19. STOCK COMPENSATION EXPENSE

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

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

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

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

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

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

	June 30, 2012

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

20. CONCENTRATION OF CREDIT RISK AND OTHER RISKS

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

21. DISCONTINUED OPERATIONS

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

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

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

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

Wuhan General Group (China), Inc.

As of June 30, 2012 and December 31, 2011

Notes to Financial Statements

(Stated in US Dollars)

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.. Such forward-looking statements include, but are not limited to, statements regarding our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, and our ability to collect on our accounts receivable. The words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "projects," "should," and similar expressio negatives of such terms, identify forward-looking statements.

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

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

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

Overview

Wuhan General Group (China), Inc. (the “Company”) is a holding company whose primary business operations are conducted through our wholly-owned subsidiary, Universe Faith Group Limited (“UFG”), which has no operations of its own and only serves to hold our Chinese operating subsidiaries, Wuhan Blower Co., Ltd. (“Wuhan Blower”), Wuhan Generating Equipment Co., Ltd. (“Wuhan Generating”) and Wuhan Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”). Wuhan Blower is a manufacturer of industrial blowers that are principally components of steam-driven electrical power generation plants. Wuhan Generating manufactures industrial steam and water turbines, which also are principally used in electrical power generation plants. Wuhan Sungreen manufactures silencers, connectors and other general parts for industrial blowers and electrical equipment, and it produces general machinery equipment. Wuhan Blower, Wuhan Generating and Wuhan Sungreen conduct all of their operations in the People’s Republic of China(“PRC” or “China”). Prior to our acquisition of UFG in February 2007, we were a publicly shell company with no operations other than efforts to identify suitable parties for a merger transaction. Our corporate structure is the following:

36

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

Recent Developments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest Expense. Our interest expense was $3.32 million for the six months ended June 30, 2012, as compared to $4.22 million during the same period in 2011, representing a decrease of 21.46%. This increase was due to an increase in loans from banks and other financial institutions in the current period.

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

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

Liquidity and Capital Resources

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

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

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, our customers are required to pay us 60% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 15% due upon signing and 45% due upon delivery. Our customers are generally required to pay us an additional 30% of the purchase price when the equipment has been installed and has performed properly for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. Our standard sales contract generally requires payment of the remaining 10% no later than 18 months following the installation. Some customers have not strictly adhered to the contractual payment terms. This has increased our accounts receivable, which is discussed in detail below. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China. Nonetheless, we are seeking more aggressive payment schedules on new sales contracts in order to improve our liquidity position.

Accounts receivable are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. Pursuant to the Company’s accounting policies, the allowance for doubtful accounts is determined by applying a rate of 5% on outstanding accounts receivable. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding accounts receivable have been determined to be uncollectible. We provide for bad debts principally based upon the aging of accounts receivable, the collectability of specific customer accounts, our experience in the collection of bad debts and the general condition of the industry.

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

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

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

We also had advances to suppliers of approximately $26.52 million at June 30, 2012, which increased by $1.34million compared to the balance at December 31, 2011. We typically need to place a deposit in advance with our suppliers on a portion of the purchase price, and for some suppliers, we must maintain a deposit for future orders.

We had inventory turnover of 167 times for the three months ended June 30, 2012. We calculate inventory turnover as sales divided by average inventory. Inventory decreased approximately $2.76 million in raw materials, increase approximately $10.75 million in work in progress and $1.59 million in finished goods for the three month period ended June 30, 2012. The increased inventory related to the Company’s decrease in sales.

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

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

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

We intend to maintain the current loan facilities with local banks and various financial institutions for new projects that we have obtained. The Company believes that its currently available working capital, combined with cash from operations and bank financing, should be adequate to sustain operations at current levels through at least the next 12 months. For our long-term strategic growth, the Company will continue to rely upon debt and capital markets for any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary objectives of the Company's capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense.

Bank Loans and Notes Generally

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

Continuing Operations

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

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

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

42

Discontinued Operations						
Wuhan Sungreen	Notes Payable	Industrial Bank Co., Ltd.	10/23/2012	-	4,747,061	-
Total					$4,747,061	-
Long-term						
Wuhan Generating	Bank Loans	Hankou Bank	9/30/2013	6.15%	4,430,590	4,556,380
Wuhan Generating	Bank Loans	Hankou Bank	10/11/2013	6.15%	1,424,117	1,492,609
Total Long Term Bank Loans and Notes					5,854,707	$6,048,989

Loan Facilities with Hankou Bank

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

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

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

Loan Facilities with China Minsheng Banking Corp., Limited

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

Critical Accounting Policies

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

Method of Accounting

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

Consolidation

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

Economic and Political Risks

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

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Company maintains bank accounts in the U.S. and the PRC.